0000159301

BEFORE THE ARIZONA CORPORATION

Arizona Corporation Commission
DOCKETED
NOV 14 2014
DOCKETED BY ne

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF TRUXTON CANYON WATER COMPANY, INC. FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-02168A-11-0363
IN THE MATTER OF THE APPLICATION OF TRUXTON CANYON WATER COMPANY, INC. FOR APPROVAL OF A REVISION OF THE COMPANY'S EXISTING TERMS AND CONDITIONS OF WATER SERVICE.	DOCKET NO. W-02168A-13-0309
IN THE MATTER OF THE APPLICATION OF TRUXTON CANYON WATER COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-02168A-13-0332 DECISION NO. 74835 **OPINION AND ORDER**

DATE OF HEARING: May 7, 2012 (Public Comment); September 26, 2012 (Procedural Conference); January 14, 2014 (Pre-Hearing Conference); January 21, 2014 (Public Comment); February 26 and 27, 2014 (Evidentiary Hearing); March 6, 2014 (Evidentiary Hearing); and April 11, 2014 (Procedural Conference)

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Yvette B. Kinsey

APPEARANCES: Commissioner Brenda Burns

Mr. Steve Wene, MOYES SELLERS & HENDRICKS, LTD., on behalf of Truxton Canyon Water Company, Inc.;

Mr. Todd Wiley, FENNEMORE CRAIG, P.C., on behalf of Intervenor Valle Vista Property Owners Association; and

Ms. Bridget Humphrey and Mr. Charles Hains, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On September 30, 2011, in Docket No. W-02168A-11-0363 Truxton Canyon Water Company, Inc. ("Truxton" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for an increase in its water rates and charges, using a test year ("TY") ending June 30, 2011("Rate Docket"). Truxton's application requested authorization to increase its rates to generate an additional $312,034 in gross revenues per year, resulting in a 97.24 percent increase over unaudited TY revenues. Truxton's application stated that the additional revenues would be obtained through having the Valle Vista Property Owners Association ("VVPOA") become a customer of Truxton.

On October 31, 2011, the Commission's Utilities Division ("Staff") issued in the Rate Docket a Letter of Sufficiency, stating that Truxton's rate application had met the sufficiency requirements as outlined in A.A.C. R14-2-103, and that Truxton had been classified as a Class C utility.

On November 4, 2011, a Procedural Order was issued setting a hearing for May 7, 2012, and other procedural deadlines were established.

On December 1, 2011, VVPOA filed a Motion to Intervene, stating that as a customer of Truxton, VVPOA had a direct and substantial interest in the rate case proceeding.

On December 12, 2011, Truxton filed a Notice of Filing Affidavit of Publication and Affidavit of Mailing, stating that notice of the rate application and hearing date had been published in the *Kingman Daily Miner*, a newspaper of general circulation in Truxton's service area, on November 25, 2011. Truxton's filing also included certification that notice of the rate application had been mailed to its customers on December 1, 2011.

On January, 3, 2012, VVPOA was granted intervention in this matter.

On January 31, 2012, Staff filed a Motion to Suspend Timeclock, stating that Staff required additional time to process the rate case application due to Truxton's failure to timely respond to Staff's data requests.

On February 13, 2012, by Procedural Order, Staff's Motion to suspend the timeclock in this matter was granted; the hearing scheduled to begin on May 7, 2012, was determined to be for public comments only; and all other procedural deadlines were suspended.

On May 7, 2012, a public comment hearing was held before a duly authorized Administrative Law Judge ("ALJ") of the Commission. Staff and VVPOA appeared through counsel. Mr. Rick Neal appeared on behalf of Truxton. No members of the public appeared to give comments on the rate application. An update on the Company's outstanding data requests was given by Mr. Neal.

On September 5, 2012, Staff filed a Request for Procedural Order Requiring the Company to Update its Application to Use a June 30, 2012, TY, stating that discovery disputes had delayed Staff's processing of the rate application and that due to a lapse of time, Staff believed that the TY data had become stale and no longer representative of the Company's financial situation.

On September 6, 2012, by Procedural Order, a procedural conference was scheduled for September 17, 2012, to discuss Staff's request that Truxton update its rate application using a June 30, 2012, TY.

On September 13, 2012, Truxton filed a Motion to Reschedule Hearing or Alternatively Permit Telephonic Appearance, stating that the Company's representative was unable for the date of the procedural conference.

On September 14, 2012, a Procedural Order was issued rescheduling the procedural conference to September 27, 2012.

On September 27, 2012, a procedural conference was held as scheduled. Truxton, VVPOA, and Staff appeared through counsel. During the procedural conference, Staff and the parties reached an agreement whereby Truxton agreed to file updates and supplemental information on its rate case through June 30, 2012. It was also agreed that Staff would annualize revenue based on the updated numbers.

On February 15, 2013, Truxton docketed a response to Staff's data request.

On February 22, 2013, Truxton docketed Updated Rate Case Supporting Documents.

On August 26, 2013, Staff filed a Request to Reinstate Timeclock and Reset Procedural Schedule.

On September 4, 2013, a Procedural Order was issued directing Staff, Truxton, and VVPOA to jointly or individually file a proposed schedule for filing testimony and proposed dates for the hearing. Truxton was directed to re-publish notice and to file a proposed form of notice to its customers. The timeclock remained suspended.

On September 11, 2013, Truxton filed (in Docket No. W-02168A-13-0309) an application with the Commission for approval of a revision of the Company's existing terms and conditions of water service ("Terms and Conditions Docket").

On September 23, 2013, Staff and Truxton jointly filed a Proposed Procedural Schedule and included a proposed form of notice.

On September 30, 2013, Truxton filed (in Docket No. W-02168A-13-0332), an application with the Commission requesting authority to incur long-term debt ("Finance Docket").

On October 2, 2013, by Procedural Order, the hearing on the rate case application was scheduled to begin on January 22, 2014, and other procedural deadlines were established.

On October 10, 2013, Staff filed a Motion to Consolidate, stating that the Rate Docket, Terms and Conditions Docket and Finance Docket were interrelated and that it would be more efficient to consolidate the matters.

On October 21, 2013, by Procedural Order, the Rate, Terms and Conditions, and Finance dockets were consolidated for the purpose of hearing and resolving the issues. Further, Truxton was ordered to file, by October 28, 2013, certification of public notice for its financing application.

On November 1, 2013, Truxton filed a Request for Extension of Time Regarding Notices.

On the same date, Staff filed a Motion to Extend Time to File Testimony, stating that Staff required additional time to file its testimony addressing the issues in the Finance Docket.

On November 8, 2013, VVPOA and Staff filed their direct testimony.

On the same date, by Procedural Order, Staff's request for additional time to file its direct testimony related to the Company's finance application was granted. Further, Truxton was granted an extension of time to mail and publish notice of the finance application as well as certification of publication and mailing.

On November 18, 2013, Truxton filed a Notice of Mailing and Publication of Public Notices, stating that notice of the finance application had been published in the *Kingman Daily Miner*, a newspaper of general circulation in Truxton's service area on October 31, 2013. Truxton's filing also filed certification that notice of the application and hearing date had been mailed to its customers on

October 30, 2013.

On November 20, 2013, Staff filed a Notice of Errata.

On December 6, 2013, Truxton filed a Notice of Filing Rebuttal Testimony.

On December 27, 2013, Staff filed Surrebuttal Testimony and VVPOA filed Rebuttal Testimony.

On January 10, 2014, Truxton filed Rejoinder Testimony.

On January 14, 2014, a pre-hearing conference was held as scheduled. Truxton, VVPOA, and Staff appeared through counsel. During the conference, procedural issues were resolved and Truxton stated that one of its main witnesses would be unavailable for the hearing dates due to a death in the family. After discussion, the parties were informed that the hearing in this matter would be rescheduled and the hearing date of January 21, 2014, would be used for taking public comments only.

On January 21, 2014, Truxton filed a Notice of Errata.

On January 21, 2014, a public comment hearing was commenced before a duly authorized ALJ of the Commission. Staff, Truxton, and VVPOA appeared through counsel. No members of the public were present to provide public comments on the applications. Discussions were held regarding resetting the evidentiary portion of the hearing.

On January 30, 2014, by Procedural Order, the hearing on the consolidated dockets was reset to begin on February 26, 2014 and continuing to February 27, 2014. Further, the timeclock was suspended for an additional 35 days.

Also on January 30, 2014, Truxton filed a Notice of Filing.

On February 21, 2014, Staff filed a Notice of Filing Witness Summaries.

On February 26 and 27, 2014, a full public hearing was held on the above-captioned consolidated dockets. Staff, Truxton, and VVPOA appeared through counsel. No members of the public were present to provide public comments. After two days of hearing, it was determined that an additional day of hearing was necessary. The hearing was scheduled to resume on March 6, 2014.

On March 6, 2014, the evidentiary portion of the hearing resumed as scheduled. Truxton, Staff, and VVPOA appeared through counsel. At the conclusion of the hearing, Staff and the parties were directed to file closing briefs in this matter.

On March 26, 2014, VVPOA docketed a letter stating that it had obtained information that Truxton and the Claude K. Neal Family Trust ("Trust") had been approached by another company regarding the potential sale of the Haulapai Well that currently serves VVPOA customers. VVPOA's letter expressed concerns that the potential sale could be a violation of Truxton's CC&N and its service obligations to customers; that the Haualapai Well is necessary and useful to Truxton's provision of service; and that Commission approval is necessary for Truxton to sell the well.

On April 1, 2014, VVPOA filed a Request for Expedited Procedural Conference stating that due to a lack of response by Truxton to its March 2006, 2014, letter, VVPOA requested an expedited procedural conference be scheduled to discuss the potential sale of the Hualapai Well.

On April 4, 2014, Staff filed a Response to Request for Procedural Conference stating that Staff agreed with VVPOA that a procedural conference was warranted given the impact that sale of the Hualapai Well could have on the rate case proceeding, as well as on an Order to Show Cause proceeding filed against Truxton in Docket No. W-02168A-10-0247.

On April 7, 2014, by Procedural Order, a Procedural Conference was scheduled for April 11, 2014.

On April 10, 2014, Truxton filed a Notice of Filing Letter Regarding Alleged Pending Sale of Well.

During the Commission's April Open Meeting, discussions were held with the Company on the possible sale of the Hualapai 1 Well. Truxton's representative stated that the Trust would not sell the Well and that Truxton would file a letter from the Trust stating that the Trust would not sell the Hualapai 1 Well or any other assets necessary for the provision of Truxton's water service, without prior Commission approval.

On April 11, 2014, a procedural conference was held, as scheduled, to address VVPOA's concerns regarding the potential sale of the Hualapai Well. Truxton, VVPOA, and Staff appeared through counsel.

On April 21, 2014, Truxton filed a Notice of Filing Letter from B. Marc Neal Regarding the Sale of the Hualapai 1 Well or any other assets necessary for the provision of Truxton's water service, without prior Commission approval.

On April 25, 2014, the parties filed their closing briefs.

On May 12, 2014, the parties docketed reply briefs.

On June 24, 2014, VVPOA filed a Supplemental Brief and Request for Scheduling Conference.

On July 2, 2014, by Procedural Order, Truxton was directed to file a response to VVPOA's Supplemental Brief and Request for Scheduling Conference, updating the Commission on the operational status of the Hualapai 1 Well. Further, Staff was directed to file a response to the VVPOA's Request for a Scheduling Conference, and Staff was instructed that it may file any comments it deemed necessary to address the operational status of the Hualapai 1 Well.

On July 11, 2014, Truxton filed a Motion for an Extension of Time to file its response to VVPOA's Supplemental Brief and Request for Scheduling Conference.

On July 14, 2014, Truxton filed its response.

On July 17, 2014, Staff filed its response.

On September 22, 2014, VVPOA filed a Notice of Withdrawal of Request for Procedural Conference.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

I. Background

1. Pursuant to authority granted by the Commission in Decision No. 41781 (December 15, 1971), Truxton is a public service corporation engaged in the business of providing water utility service to approximately 924 residential and commercial customers in the vicinity of Kingman, Arizona, in Mohave County.

2. Truxton is located approximately nine miles north of Kingman, Arizona, along US Highway 66, in Mohave County. Truxton's CC&N area encompasses approximately five-and-one half square miles.

3. Truxton is a C corporation and is wholly owned by the Claude K. Neal Family Trust ("Trust").

4. VVPOA was granted intervention in this proceeding. VVPOA is a non-profit corporation acting as the property owners association for the Valle Vista development located within Truxton's CC&N. The Valle Vista development is a planned community with approximately 4,300 lots, a golf course, park, tennis court, swimming pool, and other recreational amenities.[1] VVPOA is Truxton's largest customer and is a significant revenue source for the Company.[2]

5. Upon agreement between the parties and Staff, Truxton updated its rate application using the twelve months ending December 31, 2012. In the updated rate case, Truxton seeks an increase of $300,000 or 53.96 percent over TY revenues of $555,924, to $855,924, resulting in an operating income of $95,000.

6. On September 11, 2013, Truxton filed an application requesting approval of a revision of the Company's terms and conditions of water service.

7. On September 30, 2013, Truxton filed an application requesting authority to incur long-term debt in the amount of $1,819,208 through the Water Infrastructure Financing Authority ("WIFA").

8. On October 21, 2013, the updated rate case, terms and conditions, and financing dockets were consolidated.

II. Water System/Compliance

9. Staff states that Truxton is not in compliance with Decision No. 72386 (May 27, 2011), which ordered Truxton to acquire all water system assets necessary to provide service from the Trust by no later than June 30, 2011. Staff states that for its engineering analysis it treated the Company's rate and finance applications as if the Company owns and operates all water system assets necessary to provide service independent from the Trust.[3]

---

[1] Exhibit I-4 at 2.
[2] Tr. at 536.
[3] Exhibit S-1, Engineering Report at 1.

10. The water system used to provide service to Truxton's customers includes: six wells the 29 Well; Davis 1 Well; Davis 2 Well; Little Hackberry; Reda; and Hualapai.[4] The first five wells are located in the Hackberry well field.[5] There are two operational wells in the Hackberry well field, namely 29 Well and Davis 1 Well.[6] The Hualapai well is also an active well.[7] The water system also includes 580,000 gallons of storage capacity and a distribution system.[8] There is also a 20,000 gallon storage tank that is inactive.[9]

11. The Arizona Department of Environmental Quality ("ADEQ") regulates the water system under Public Water System ("PWS") Identification No. 08-035.

12. Staff conducted a site inspection of the water system on November 2 and 3, 2011, and again on March 5, 2013.[10]

13. Staff indicated that the number of customers Truxton serves has increased since 1999 from 567 to 924 in 2012. Staff states that given the Company's average growth rate of 16 customers per year, Truxton could serve approximately 1,012 customers by the end of 2017. Staff concludes that the water system has adequate production and storage capacities to serve existing customers and reasonable growth.[11]

14. During the TY, Truxton had an average daily use per connection of 605 gallons, where its high use was 1,091 gallons per day ("GPD") per customer, and its low use was 187 GPD per customer.[12] For total gallons sold during the TY, Truxton had its highest monthly total use in June with 30,441,000 gallons sold, and its lowest usage in March with 5,354,000 gallons sold.[13]

---

[4] Exhibit S-17. This Exhibit, which is a copy of the proposal drafted by Fann Environmental, LLC, incorrectly refers to the Hualapai well as Walapai.
[5] *Id.*
[6] *Id.*
[7] *Id.*
[8] Exhibit S-1, Engineering Report at 2.
[9] *Id.* Truxton stated that it owns no assets needed in the provision of its water services and that everything (including backhoes, ditch witches, vehicles, trailers, and welders) are owned by the Trust. Tr. at 241. Truxton states that the Trust assets needed to provide its water service includes six wells, a 500,000 gallon storage tank, 40,000 gallon storage tank, 5,211,760 feet of distribution main, and 15 miles of 14-16-inch transmission lines.
[10] *Id* at 1.
[11] Exhibit S-1, Schedule DMH-1 at 3.
[12] Exhibit S-1, Engineering Report at 4.
[13] *Id.*

15. Generally, Staff recommends that water systems have a non-account water loss of no greater than 10 percent. During the TY, Truxton reported 205,614,000 gallons of water sold and 205,614,000 purchased, resulting in a zero percent water loss. Staff states that a zero percent water loss calls into question the validity of the water use reported for the system because all water systems experience water loss due to breaks, flushing of lines, and other non-metered use.[14]

16. Staff recommends that Truxton immediately begin to monitor the gallons of water pumped and the gallons of water sold on a monthly basis. Staff states the Company should coordinate when it reads the "source" meter each month with when it reads the "customer" meters so that an accurate accounting of the water pumped and the water delivered to customers can be determined. Staff further recommends that the Company file its first water usage report in the Company's 2014 Annual Report filed with the Commission. If the reported water loss is greater than 10 percent, Staff recommends that the Company prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. Further, Staff states that if Truxton believes that it is not cost effective to reduce the water loss to less than 10 percent, it should be required to submit a detailed cost benefit analysis to support its opinion, but that in no case should Truxton's water loss exceed 15 percent.[15]

17. Truxton is not in compliance with ADEQ. Based on an ADEQ Compliance Status Report dated March 5, 2014, the water system has major deficiencies for failing to monitor chlorine residuals in the water; exceeding the arsenic standard; and failing to monitor for nitrate levels.[16] Due to the Company's deficiencies in monitoring and reporting and in operation and maintenance, ADEQ cannot determine if the water system is currently delivering water that meets water quality standards and the A.A.C.[17]

18. Truxton is currently under a Consent Order with ADEQ for its failure to submit monitoring results for residual chlorine in its distribution system for the years 2004, 2005, 2006, and for the month of January 2007.[18] Further, Truxton failed to submit quarterly monitoring results for

[14] Exhibit S-1, Engineering Report at 5.
[15] *Id.*
[16] Exhibit S-15.
[17] *Id.*
[18] *Id.*

arsenic between October 2009 through March 2010 and for July 2010 through September 2010, and the Company failed to provide notice of its arsenic levels for July 2008 through June 2010.[19]

19. On May 17, 2011, ADEQ issued a Notice of Violation ("NOV") to Truxton for its missed deadlines for arsenic monitoring.[20] ADEQ states Truxton failed to complete its arsenic treatment facility by December 1, 2012; that Truxton has failed to submit an Approval of Construction ("AOC") for the facility; but that Truxton is now submitting public notice, arsenic monitoring reports, and status reports as required by the Consent Order.[21]

20. Staff's witness testified that when comparing the April 17, 2013, ADEQ Compliance Status Report to the March 5, 2014, ADEQ Compliance Status Report, the arsenic levels in the water system have increased; that Truxton has failed to comply with disinfecting byproducts; and that disinfecting byproducts is a health concern because byproducts are cancer causing agents.[22]

21. Staff recommends that any increase in rates approved by the Commission not become effective until the Company files documentation from ADEQ demonstrating that it is in compliance for the monitoring of chlorine residual and nitrates.[23]

22. Truxton is not located within an Arizona Department of Water Resources ("ADWR") Active Management Area ("AMA"). ADWR has determined that Truxton is in compliance with departmental requirements governing water providers and/or community water systems.[24]

23. Staff recommends that Truxton file with Docket Control, as a compliance item in this docket, within 45 days of the effective date of this Decision, at least five Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff, for the Commission's review and consideration.[25] Further, Staff recommends that Truxton be permitted to choose no more than two BMPs from the Public Awareness/Public Relations or Education and

---

[19] *Id.*
[20] Staff Exhibit S-15.
[21] *Id.* Truxton obtained an Approval to Construct ("ATC") from ADEQ on March 28, 2013, and has three years from the ATC approval to obtain an AOC.
[22] Tr. at 451.
[23] Exhibit S-1, Engineering Report at 6.
[24] ADWR Compliance Status Report issued March 19, 2013.
[25] Exhibit S-1, Engineering Report at 11.

Training categories and that the Company be permitted to request recovery of actual costs associated with the implementation of the BMPs in its next general rate application.[26]

24. Truxton does not have an approved Curtailment Tariff on file with the Commission. Staff states that a Curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.[27] Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than 45 days after the effective date of a Decision in this matter. Staff recommends that the tariff be docketed as a compliance item under this docket for the review and certification by Staff.[28]

25. Staff further recommends that the Company's Curtailment tariff generally conform to the same standard non-consecutive water system tariff found on the Commission's website at www.cc.state.az.us.

26. Truxton has an approved backflow prevention tariff on file with the Commission.

27. Staff recommends that on a going forward basis, Truxton use the depreciation rates developed by the National Association of Regulatory Utility Commissioners ("NARUC"), as delineated in Exhibit S-3, Exhibit DMH-1, Figure 6.

28. Although Truxton did not oppose Staff's recommendation for the implementation of a BMP Tariff, we find that it is appropriate not to require Truxton to file BMP Tariffs at this time.

29. We find Staff's other recommendations related to the Company's water system compliance reasonable and we will adopt them.

III. Finance Application

30. The Company's finance application seeks approval to obtain a $1,819,208 Water Infrastructure Finance Authority ("WIFA") loan, to cover costs associated with the installation of an arsenic removal treatment facility ("ATF"), capital improvement projects, and for Truxton to acquire from the Trust, the assets necessary for Truxton to provide its water services. Truxton's finance application requests $419,208 to construct an ATF and capital improvement projects and authorization to finance $1.4 million to acquire the Trust assets.

---

[26] *Id.*
[27] Exhibit S-1, Engineering Report at 11.
[28] *Id.*

A. <u>Acquisition of Trust Assets</u>

31. In Decision No. 72386, Truxton was ordered to acquire all water system assets required for the provision of water service from the Trust, by June 30, 2011. Truxton is not in compliance with Decision No. 72386.

32. Truxton states that the Trust assets needed to provide Truxton's water service includes: six wells, a 500,000 gallon storage tank, 40,000 gallon storage tank, 5,211,760 feet of distribution main, and 15 miles of 14-16-inch transmission lines.[29] Truxton states that using a replacement cost study methodology, the market value of the Trust's assets is approximately $11,532,385.[30] Truxton states the Trust is willing to allow Truxton to acquire the assets for $1.4 million.[31]

33. The evidence shows that for many years the Trust managed Truxton's day-to-day operations, including compliance with regulatory agencies, under a Management Agreement and that B. Marc Neal served as President of Truxton and as the sole Trustee for the Trust.[32] Approximately three years ago, Rick Neal, B. Marc Neal's son, became the manager of Truxton.[33]

34. According to Rick Neal, the Neal family settled in the Kingman area around 1867, where they acquired water sources and at that time most of the land was owned by the railroad.[34] Mr. Neal stated that his family began trading water for land and as a result the family ended up with large land holdings in the Kingman area.[35] He stated that somewhere around World War II, the Army Corp of Engineers installed transmission lines to bring water from the Truxton area to where the airport is currently located.[36]

35. It is undisputed in this case that the Trust owns the 15 miles of main transmission line, the wells in the Hackberry and Hualapai Well fields, and the storage tanks (two in the Hualapai Well site, and a half million gallon concrete underground storage tank).[37] Truxton's witness stated that

---

[29] Exhibit A-7.
[30] Exhibit A-7, Schedule 1.
[31] Exhibit A-5 at 2.
[32] Tr. at 222.
[33] *Id.*
[34] Tr, at 228.
[35] Tr. at 228-229.
[36] Tr. at 229.
[37] Tr. at 260.

when the Hackberry wells were originally put into service they were paid for by the Neal family, but that he did not know how much they paid for the wells.[38] He stated that the main transmission line and the storage tanks have been in the ground for 70 years, and that repairs and replacements have been made over the years, but that the Trust did not maintain records to support the costs or expenses.[39]

36. Mr. Neal testified that when Truxton was granted a CC&N, the Trust entity decided to keep the transmission line, the Hackberry Well field, the Hualapai Well field, and the storage tanks under the ownership of the Trust.[40] Truxton's witness explained that a Phoenix law firm hired by the Trust "highly recommended" that the assets remain with the Trust because "the Corporation Commission will come in and take over your water company any time they want to take it" and that the decision was made to keep the assets under Trust ownership "to avoid going before the ACC having to deal with all the regulatory issues."[41]

37. Truxton asserts that Staff and VVPOA's position that the assets should be transferred to Truxton for a net book value of zero is unreasonable. Truxton states that Staff assumes that the Trust assets are fully depreciated and Truxton believes that the Commission should not base its finding on an assumption.[42] Truxton also contends that because the Commission, an "agency of the state government," is demanding that the Trust transfer its assets to Truxton that under the U.S. Constitution and Supreme Court precedent, the Trust must be compensated for the fair market value of its property. In addition, Truxton argues that Staff and VVPOA's assertion that the Trust is entitled to only the depreciated value for its assets according to NARUC guidelines is "trumped by" the U.S. Constitution and Supreme Court rulings.[43]

38. Truxton also argues that even if the assets have a depreciated value of zero, as asserted by Staff, that does not mean that the assets have no value.[44]

---

[38] Tr. at 272-276.
[39] *Id.*
[40] Tr. at 270.
[41] *Id.*
[42] Truxton Post Hearing Brief at 5.
[43] *Id.*
[44] Tr. at 202-203.

39. Alternatively, Truxton requests that if it is not allowed to borrow $1.4 million to acquire the Trust assets, the Company should be allowed to continue purchasing water from the Trust as it did for approximately 40 years.[45] In support of its argument, Truxton contends that historically the Commission has known and condoned the Trust selling water in Truxton's CC&N.[46]

40. Staff argues that more than three years have passed since Staff, VVPOA and Truxton entered into a Stipulation Agreement in which Truxton agreed to acquire "all the water system assets necessary to provide service," but that Truxton has still failed to do so and is now asserting that it must purchase the assets from the Trust for $1.4 million.

41. Staff states that there is no dispute that the Trust is the sole shareholder of Truxton and therefore the Trust and Truxton are affiliates.[47] Staff argues that under NARUC guidelines "affiliate transactions are problematic because they raise concerns of self-dealing where prices are not driven by market forces and where utilities have an incentive to shift costs from non-regulated operations to regulated operations."[48]

42. Staff states that under NARUC guidelines, affiliates are defined as "companies that are related to each other due to common ownership or control," and under the guidelines, Truxton and the Trust are affiliates.[49] Staff argues that under NARUC guidelines, this case involves two types of affiliate transactions: 1) the provision of products, services and assets; and 2) the transfer of assets between affiliates.[50]

43. Under NARUC guidelines:

> Generally, the transfer of assets from an affiliate to the Utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at

---

[45] Truxton Post Hearing Brief at 6. Tr. at 263.
[46] Truxton Post Hearing Brief at 6. Truxton refers to Decision No. 63713 (June 6, 2001), in which Truxton states that Staff recommended increasing Truxton's purchased water expense because the rate the Company was paying to the Trust was unreasonably low.
[47] Staff's Initial Closing Brief at 4.
[48] Staff's Initial Closing Brief at 4. See also, Exhibit S-8 NARUC Guidelines for Cost Allocations and Affiliate Transactions. Staff states that although the Commission has not officially adopted the NARUC guidelines it consistently follows them. See, Tr. at 548-549, 551.
[49] Staff's Initial Closing Brief at 4.
[50] *Id.*

certain value thresholds as determined by regulators.[51] Further, the burden of proof for any exception from the general rules rests with the proponent of the exception.[52]

44. Staff states that under the NARUC guidelines, Staff believes the Trust's assets have a net book value of zero.[53] Staff defines the net book value as the original cost of the asset, plus any additions, less retirements and the accumulated depreciation on that plant.[54]

45. Staff presented evidence showing what Staff believes to be a list of Trust assets that Truxton needs to acquire to provide its water service, the year that the plant assets were placed into service, and the estimated original costs for those assets using Reconstruction Cost New ("RCN") methodology.[55] Staff's list included the following information:

Well (active)	Year installed	Estimated original cost (by RCN method)
55-624988 (29 Well) – 16" casting, 593' deep	1943	$7,653
55-624986 (Davis 1 Well) – 16" casting, 1,072' deep	1962	$35,165
55-624999 (Hualapai 1 Well) – 20" casting, 1,059' deep	1964	$77,034
Sub-total		$119,852
Storage Tank		
500,000 gal concrete tank	1944 (est)	$673,717
Two 40,000 gal steel tanks in Hualapai 1 Well site	1964 (est)	$8,839
Sub-total		$682,556
Transmission Lines		
15 miles of 16" casting iron pipes (assumed)	1943 (est)	$1,384,077
Sub-total		$1,384,077
Total		**$2,186,485**

46. Staff's witness stated that its RCN did not include depreciation. However, Staff asserts that the useful life of a well is 30 years,[56] 45 years for a storage tank,[57] and 50 years for transmission and distribution lines.[58] Staff asserts that the Company's witness confirmed that Staff's

[51] Staff quoting the NARUC Guidelines for Cost Allocations and Affiliate Transactions in Exhibit S-8 at D.4.
[52] *Id.*
[53] Staff's Initial Closing Brief at 5.
[54] *Id.*
[55] Exhibit S-2 at 4. A.A.C. R14-2-103.A.3.n., defines RCN Rate Base as "an amount consisting of the depreciated reconstruction cost new of the property (exclusive of contributions and/or advances in aid of construction) at the end of the test year.
[56] Exhibit S-3 at 4.
[57] NARUC Depreciation Rates.
[58] Exhibit S-3 at 4.

dates for when the plant was placed in service are correct;[59] that neither the witness nor the Company has knowledge of the actual costs of the Trust assets;[60] that Truxton acknowledged that the Trust did not incur costs to purchase the 15-mile transmission line;[61] and that based on the dates the wells and storage tanks were put into service, Staff believes they are completely depreciated.[62]

47. Staff contends that the Company's assertion that improvements may have been made to the plant that would have extended the depreciable life of the plant, should not be considered because the Company failed to provide any documentation of the occurrence or cost of any system improvements or upgrades.[63]

48. Staff points to the testimony provided by Truxton's manager when asked if the Company could document any repair costs or other improvements to help the Commission determine what improvements had been put into the wells, the witness answered:

> One of my biggest challenges, and it was what made this first rate case so extremely difficult when I stepped into this, was the lack of documentation to support money. And I don't care if it was expenses, income, it was just—and, and I don't know who to blame; I don't know why. I don't know if they do. I don't know if they did where it would be. I just know that every time I have tried to find something, it has been very difficult for me to do and once I do, it's piecemeal at best.[64]

49. Staff also argues that even if Truxton never acquires the Trust plant assets, Staff's recommendation that the assets be transferred at zero net book value would be fair because the Company and ratepayers have paid the Trust for the market value for the water, which includes operations and maintenance and capital cost, plus a return on the value of the equipment and facilities necessary to provide service, under a Water Supply Agreement ("WSA").[65] Staff assets that the WSA has been in effect since 1991 and maybe even earlier, and remained in effect until 2010.[66]

50. Under the WSA, the rate charged by the Trust to Truxton is defined as:

> Said price will be based upon the market value of the water considering the operation, maintenance and capital cost to Trust, plus a return on the value of

[59] Tr. at 127-128, 272, 274.
[60] Tr. at 127-128, 272, 274.
[61] Tr. at 272.
[62] Exhibit S-3 at 4 and NARUC Depreciation Rates.
[63] Staff's Initial Closing Brief at 6 and also Exhibit A-5 at 3.
[64] Tr. at 274.
[65] Tr. at 336-37.
[66] Tr. at 336.

> the equipment and facilities necessary to provide service under this agreement.[67]

51. Staff asserts that this provision provides for full recovery of the Trust's costs; allows the Trust a return on investment or a profit from its subsidiary; that it is contrary to NARUC guidelines to allow profit on affiliate transactions; and the Company acknowledged that the Commission generally does not allow profit on affiliate transactions to be passed on to customers.[68]

52. Like Staff, VVPOA opposes Truxton's request to finance $1.4 million to acquire the Trust assets. VVPOA argues that the Commission should reject Truxton's finance request because: 1) under NARUC guidelines the proposed acquisition price constitutes an affiliate profit; 2) Truxton provided no documentation of repairs that would extend the depreciable life of the assets; and 3) the only evidence in the case is that the assets have been fully depreciated using accepted depreciation rates, and they have a net book value of zero.[69] Further, VVPOA argues that Truxton's proposed valuation of the Trust assets, using a replacement cost methodology, is flawed because it does not account for depreciation, which does not comply with NARUC guidelines on Cost Allocations and Affiliate Transactions or the NARUC Uniform System of Accounts.[70]

53. VVPOA argues that the sale of the 15-mile transmission line to Truxton would constitute an affiliate profit which violates NARUC guidelines. VVPOA states that between years 2002 and 2010, VVPOA paid the Trust over $2 million for water provided from the Hackberry Well down the transmission line.[71] VVPOA points to testimony by Truxton's witness that the Army Corps of Engineers constructed the transmission line; that it was conveyed to the Trust at no cost; and that the Trust owns the transmission line "free and clear."[72] VVPOA argues that based on Staff's conclusion that the assets are fully depreciated, the assets are owned "free and clear" by the Trust, the Trust has earned over $2 million from VVPOA; VVPOA asserts that the $1.4 million payment for the assets would be equivalent to owner profit.

---

[67] Exhibit S-6 at 3.
[68] Tr. at 136.
[69] VVPOA's Closing Brief at 21-22.
[70] *Id.* at 2.
[71] Exhibit I-5 at 6-7.
[72] VVPOA's Closing Brief at 8 and Tr. at 271-272.

54. VVPOA supports Staff's testimony that "in the case of a transfer of asset, the service provided by that asset is the same for the customers after the asset has been transferred. There has been no improvement in the service to customers, so the customer should not have to pay an additional cost to receive the same service. So there should be no level of profit included."[73] VVPOA points to the testimony given by Truxton's witness to illustrate its point. Truxton's witness stated that she has never seen a situation where the sole shareholder of a regulated utility owns wells or pipelines and then sells them to the regulated utility which the shareholder owns.[74]

55. VVPOA contends that Truxton's valuation of the Trust assets is flawed because it does not take into consideration the depreciation of the assets as required by the NARUC guidelines. VVPOA states that Truxton's witness did not perform any depreciation analysis related to the Trust assets, could not provide information on when the assets were installed or put into service, and did not know what depreciation rates apply to those assets.[75] Further, VVPOA asserts that Truxton's witness acknowledged that Truxton's RCN study did not include an analysis of the depreciation of the assets, even though it is required by the NARUC Uniform System of Accounts;[76] the replacement cost study did not consider the age and/or condition of the Trust assets;[77] the study did not include a review of any documentation related to repairs or cost of repairs related to the assets; and Truxton did not make any inquiries to the Trust related to the depreciation of the assets.[78]

56. VVPOA supports the assertion of Staff's witness that it is unlikely that WIFA would even approve financing for a utility to pay its sole owner and shareholder for aged and deteriorated assets.[79] VVPOA asserts that it is "double billing" for the Trust to receive millions in revenue from VVPOA and now seek to include the costs of transferring that infrastructure to Truxton in VVPOA's rates.[80]

. . .

---

[73] Tr. at 539.
[74] Tr. at 68.
[75] VVPOA's Closing Brief at 23, Tr. at 78.
[76] *Id.* at 24, Tr. at 166-169.
[77] Tr. at 119.
[78] Tr. at 166-169.
[79] VVPOA's Closing Brief at 23, Tr. at 543.
[80] *Id.* at 26 and Exhibit I-5 at 6.

B. <u>ATF/Capital Improvements Projects</u>

57. Effective January 2006, the U.S. Environmental Protection Agency ("EPA") reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb.

58. The water system's wells have arsenic levels that range from 4 to 36 ppb, with the wells located in the Hackberry Well Site having higher concentrations of arsenic (23 ppb) and the Hualapai Well having the lowest (4 ppb).[81]

59. To reduce the arsenic levels in the wells and to meet the EPA standard, Truxton states it plans to construct an ATF that will blend the water from the high arsenic wells with water from the low arsenic wells.[82] Truxton states that approximately 75 percent of the year, it provides water to all of its customers using the high arsenic wells, which are shallow, operated by electric motors, elevated 1,000 feet above its customer base and gravity fed downhill to customers, and that it is inexpensive for Truxton to provide the water.[83]

60. Truxton states that once its proposed ATF is in place, it will provide half of the water needed to serve customers from the Hualapai 1 Well, located several hundred feet in elevation below its customer base. The Hualapai 1 Well has a depth of 1,000 feet.[84] The water from the Hualapai 1 Well will have to be pumped to the surface, and then pumped uphill to customers using a large diesel engine that has been converted to natural gas. Truxton states it is very expensive to provide water to its customers using this well.[85] Truxton states that the WIFA loan amount it has requested for the ATF is needed because Truxton customers cannot absorb the cost of the ATF.[86]

61. Staff reviewed the ADEQ approved construction plans and used information obtained during Staff's site inspections to evaluate the Company's proposed ATF and its cost.[87]

62. Staff's Engineer testified that, based on the plans Truxton submitted to ADEQ on April 19, 2013, Truxton proposes installing a central treatment plant to reduce the arsenic levels in

---

[81] Exhibit S-17.
[82] Exhibit S-14, Tr. at 306.
[83] Exhibit S-14.
[84] *Id.*
[85] *Id.*
[86] *Id.*
[87] Exhibit S-1, Engineering Report at 8.

the wells, and not a blending plan.[88] According to Staff's witness, the Company's ATF proposal will treat 250 of the total 500 gallons of water per minute from the 29 Well and the Davis 1 Well for arsenic.[89] Staff's witness stated that only half of the water will be treated for arsenic and the other half will bypass the ATF.[90] The remaining 250 gallons of water that will bypass the treatment plant will flow through the transmission line and will be stored in a half million gallon storage tank, where it will then be mixed with the arsenic treated water.[91]

63. Staff stated that Truxton's proposed ATF plan may be problematic and may be ineffective in reducing the arsenic levels to comply with the EPA standard. Staff's Engineer stated that the Company's proposal to have the Davis 1 Well and the 29 Well flow through the ATF will be ineffective in reducing the Company's high arsenic levels in the Davis 2 Well because the Davis 2 Well has arsenic levels somewhere between 30-40 micrograms per liter.[92] Staff testified that the water from the Davis 2 Well cannot be treated for arsenic using a media absorption system as proposed by the Company.[93]

64. Staff's Engineer also explained that Truxton's proposed ATF cannot be described as a blending plan because the arsenic treated water and the untreated water are not being controlled, but simply mixed together.[94] Staff stated that in order to blend water to reduce the arsenic levels there needs to be some mechanical way to control the flow of the water, the arsenic load from each source needs to be calculated, and the water then blended in the storage tanks to reduce the MCL below 10 ppb.[95] Staff stated that under the Company's proposed plan, treating the arsenic will be ineffective because there is no way to control the flow of water entering the storage tank from the Hualapai 1 Well.[96]

65. Staff's Engineer further explained that the Hualapai 1 Well will not be connected to the ATF and that water from the well will flow from the well through the transmission line directly to

---

88 Tr. at 456.
89 *Id.*
90 Tr. at 457.
91 Tr. at 457, 510.
92 Tr. at 458.
93 Tr. at 505.
94 Tr. at 511.
95 *Id.*
96 *Id.*

the half million storage tank.[97] According to the witness, the Hualapai 1 Well has an arsenic level of 4 ppb.[98]

66. Staff submitted evidence showing the proposal submitted by Fann Environmental, LLC ("FE") for Truxton's proposed ATF design and installation. FE describes the proposed ATF as a blending plan.[99] FE states that the ATF will be designed to flow 250 gallons per minute from the production wells in the Hackberry Well Site, specifically the 29 Well and the Davis 1 Well, through the ATF.[100] FE's plan states that the ATF will be housed in an existing building located near the Davis 1 Well, and that the building is currently being used to inject chlorine into the water system for disinfection. [101] The FE plan states that there are two 4-inch lines tapped off the Davis 1 Well line that enter into the building and that a portion of the Davis 1 Well water is currently being sent to the building where chlorine is added to the water before it is sent to the transmission line.[102] To direct the water to the ATF, the valve located on the transmission line between the two connections will be turned off and all water will be directed through the 4-inch line and into the treatment system.[103] FE states that during the summer months, when both wells are running, the Davis 1 Well will be treated to a MCL of 5 ppb.[104] This water will then be mixed with the 29 Well for a result of 8.5 ppb or less.[105] The ATF proposed in the design plan has no electronic controls for the treatment system, and the system will have to be manually operated.[106] Further, the proposed ATF will have a backwash system that will have to be manually operated to send the treated distribution water to a small storage tank and booster pump every 45-60 days.[107] FE concluded that the blending plan and the absorbent based media system is the best technology and most economical way to provide reliable arsenic treatment for the customers of Truxton; the system will consist of metering vessels to control the flow of the water to three vessels (containing a total of 114 cubic feet of media) to treat a flow of 250

---

[97] *Id.*
[98] Tr. at 509.
[99] Exhibit S-17.
[100] *Id.*
[101] *Id.*
[102] *Id.*
[103] *Id.*
[104] *Id.*
[105] *Id.*
[106] *Id.*
[107] *Id.*

gallons per minute to an arsenic concentration of less than or equal to 5 ppb at the Davis 1 Well; and that the Davis 1 Well treated water will be blended with the 29 Well to maintain a level of 8.5 ppb or less to meet the EPA MCL.[108]

67. Based on the evidence in this matter, Truxton's proposed ATF will be a combination of a blending plan and an absorption media system.

68. Staff and Truxton disagree on the Company's request for authorization to finance $419,208 to cover costs associated with the ATF and other capital improvements. Staff recommends a total cost of $259,800 for the ATF and recommends disallowing the other capital improvement projects.

69. The proposed costs for the ATF and other capital projects as recommended by Truxton and by Staff are as follows:

	Plant Item	Company's Estimate	Staff's Recommendation
1	Treatment Plant and Rerouting well	$193,652	
	ADEQ Permit Fee	N/A	$2,000
	Engineering	N/A	20,000[1]
	3 Flow meters/Control meters	N/A	4,500
	Piping	N/A	73,000
	Media (estimated 76 cubic feet @ $250/cubic ft)[2]	N/A	19,000
	Vessel (three fiberglass tanks of 4" diameter, 6' in height)[2]	N/A	10,000
	One 6,500 gal HDPE tank for recycling water storage	N/A	3,000
	One 2,000 gal HDPE tank for backwashing water storage[2]	N/A	1,000
	300' 6" PVC line inflow line from distribution line to the treatment plant (estimate $40/ft including material, labor, equipment rental and survey)[2]	N/A	12,000

[108] Exhibit S-17.

	300"6" PVC line discharge line from the treatment plant to the distribution system line (estimated $40/ft including material, labor, equipment rental and survey)[2]	N/A	12,000
	Concrete, fencing, earthwork	N/A	0[2]
	subtotal	**$193,652**	**$156,500**

2	Electrical Controls and Instrument Changeover	$127,000	
	Control Panel Installation	N/A	$50,000
	Electric Power Line upgrade (from single phase line to 3 phase line, estimate 1,000' between Davis 1 Well and the treatment plant site)	N/A	10,000
	subtotal	**$127,000**	**$60,000**

3	Replacing Transmission Line (1 mile)	$98,556	0[3]
	subtotal	**$98,556**	**0**
	Total	**$419,208**	**$216,500**
	Administration fee (5%)	0	10,825
	Contingency (15%)	0	32, 475
	Total	**$419,208**	**$259,800**

Notes:

1. Item includes design fee, water testing cost and survey cost.
2. Per the ADEQ approved construction plan the treatment plant will be installed inside an existing warehouse, therefore, no concrete pad, fencing, etc. will be necessary.
3. No explanation was provided by the Company as to why this transmission line was needed.

70. Truxton's finance application seeks financing for its proposed ATF in the amount of $193,652; installing electrical controls for a single phase electrical line to convert the Hualapai 1 Well from natural gas pumps to electric pumps in the amount of $127,000; and replacing one mile of transmission line in the amount of $98,556, for a total cost of $419,208.

71. Truxton's witness testified that it is the Company's intention to replace the last three miles of the transmission line where the majority of the leaks occur during the summer months and that the Company has been putting $300 clamps on the line as the leaks occur.[109] The witness stated that replacing at least one mile of the three mile line will solve "a whole bunch of problems," and that

[109] Tr. at 257.

the Company can reuse the thousands of dollars' worth of clamps on that line to fix other leaks on the system.[110] The witness suggested that in two years' time, the Company would file another financing application requesting to replace another mile of the transmission line.[111]

72. Staff recommends that the Commission approve $259,800 to fund the installation of a 250 GPM arsenic treatment plant, based on Staff's listed system improvements and at the cost recommended by Staff, as described above.

73. Staff also recommends approval of $43,300 to cover administrative costs and contingencies associated with proposed ATF. Staff argues that its recommendation of $259,800, to cover the cost of the ATF is actually more than the Company's allotted request for the ATF of $193,652.[112]

74. Staff states that no "used and useful" determination of the proposed plan was made and that no conclusions should be inferred for future rate making or rate base purposes.

75. Staff also recommends that the Company file, by December 31, 2015, with Docket Control, as a compliance time in this docket, a copy of the Certificate of Approval of Construction for the installation of the 250 GPM arsenic treatment plant.

76. Staff recommends disallowing the Company's proposal to install an electrical line (to convert the Hualapai Well 1 from natural gas pumps to electric pumps) because Truxton's WIFA loan application only requests financing for the installation of the electric line, but did not include a cost to replace the pumps.[113] Staff states that because the Company's WIFA loan application did not include the actual conversion or installation of the electric motors to drive the well, Staff viewed the electric line as a line to nowhere and believes the line would not become "used and useful."[114]

77. Although Staff does not recommend approval of the electric line to convert the Hualapai 1 Well from natural gas to electric, Staff recommends approval of $60,000 to upgrade the

---

[110] Tr. at 258.
[111] *Id.*
[112] Staff's Initial Closing Brief at 25.
[113] Tr. at 460.
[114] Tr. at 461.

electricity needed for the building that will house the ATF.[115] Staff states that during its site inspection, Staff noted that the water system's well and well fields only had single phase electric service.[116] Staff states that based on FE's proposed plan to keep the ATF operating at all times (so that there is a constant flow of water through the media to keep it from cracking) Truxton will need to upgrade the electric service to the building where the ATF will be housed from a single phase electrical line to a three phase electrical line.[117]

78. Staff also recommends that because the details of WIFA loan are not known at this time, that the Commission approve an arsenic surcharge mechanism to recover the costs associated with the WIFA loan for the ATF.[118] Based on the preliminary loan details and customer counts, Staff believes the estimated arsenic surcharge will be approximately $2.15 per month for ¾-inch meter customers.[119]

79. Staff also recommends that the Commission:

a. Approve the Company's request for authorization to finance up to $259,800 through WIFA for the purpose of constructing the ATF.
b. Approve an arsenic surcharge mechanism to recover costs associated with the WIFA loan.
c. Require the Company to file with the Commission a an arsenic surcharge tariff that would enable the Company to meet its principal, interest, and tax obligations on the proposed WIFA loan.
d. Require the Company follow the same methodology, as shown in Exhibit S-4, Surrebuttal Schedule CSB-24, to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the WIFA loan using the actual loan amount, interest rate and customer counts.[120]
e. Require the Company make a WIFA loan surcharge filing within 15 days of the loan closing.
f. Require the Company to place the WIFA loan surcharge proceeds in a segregated account, to be used only for making payments on the WIFA loan and the annual income taxes related to the loan as shown in Staff's Surrebuttal Schedule CSB-24.

---

[115] Tr. at 461-462. Staff also notes that the Company's witness testified that the building to be used for the ATP already has power and therefore Staff's recommendation to bring electric service to the building is apparently either wholly, or in part, unnecessary.
[116] Tr. at 462.
[117] Tr. at 462.
[118] Exhibit S-3 at 26.
[119] Exhibit S-4Surrebuttal CSB-24.
[120] Although Staff's recommendation states that the Company's filing should include a calculation of its debt reserve, Staff's schedule did not show a methodology for calculating a debt reserve.

g. Require the Company file a rate case no later than May 31, 2018, using a December, 31, 2017, TY.

h. Rescind approval of the loan and the surcharge if the Company has not drawn funds from the loan within one year of the effective date of a Decision in this proceeding.

i. Require the Company to notify its customers of the WIFA loan surcharge by means of a bill insert in its next regularly scheduled billing after the Commission's Decision in this proceeding.[121]

80. Staff recommends disallowing Truxton's request to replace one mile of the transmission line because the Company's finance application did not identify which portion of the transmission line the Company intends to replace or what type of pipe it will be replaced with.[122] Staff further explained that portions of the transmission line run along Historic Highway 66 which may require additional permits; the Hualapai Well runs adjacent to an Indian Reservation; and that portions of the transmission line are located in a tributary flood plan.[123] For those reasons, Staff states it recommends disallowing the replacement of the one mile of transmission line and because Truxton did not provide enough specifics in its application.[124]

81. Regarding upgrading the Hualapai 1 Well, Staff states that it agrees there may be some efficiencies gained from upgrading the Hualapai 1 Well, but that Staff did not have enough information to assess the project and review the proposed costs.[125]

82. VVPOA does not oppose Truxton's request for authorization to obtain financing to construct an ATF.[126] However, VVPOA argues that its rates for irrigation water should not include any costs associated with construction of the ATF or an arsenic surcharge.[127] VVPOA acknowledges that its potable water rates may include charges for the ATF, but that its irrigation rates should not.

83. VVPOA supports the Company's request to convert the natural gas pumps to electric pumps for the Hualapai 1 Well, so long as the changeover costs are reasonable and VVPOA can afford them.[128]

---

[121] Exhibit S-3, at 26-27.
[122] Tr. at 463.
[123] Tr. at 463.
[124] Tr. at 249-250, 258.
[125] Exhibit S-1, Engineering Report at 8.
[126] VVPOA Closing Brief at 3.
[127] *Id.*
[128] Tr. at 403.

84. VVPOA asserts that the Commission should not deny Truxton's request for authorization to finance the conversion of the Hualapai 1 Well, but that Truxton should be required to make a compliance filing (in this docket) that includes a more detailed plan to convert the Hualapai 1 Well to electric service, that will be subject to Staff's review and the Commission's approval.[129] Further, VVPOA states that upgrading the Hualapai 1 Well is important to maintaining the operational status of the Well; it is in the public interest to residential property owners, VVPOA, and Truxton to upgrade the Well; and it would be more efficient to require Truxton to make the additional filings regarding its request for authorization than to require the Company to file a new finance application.[130]

85. The Hualapai 1 Well is used as a secondary well source when the wells in the Hackberry well field cannot provide enough water for all of Truxton's customers.[131] The Hualapai 1 Well is mainly used during the summer months when the golf course's demand for water is high.[132]

86. The record shows that the Hualapai 1 Well has failed numerous times. VVPOA's witness testified that during 2011, the golf course went without water for 73 days.[133] On June 24, 2014, VVPOA filed a Supplemental Brief in this docket stating that the Hualapai 1 Well had failed on June 13, 2014, and that the Well had not been fully operational for ten consecutive days. VVPOA also states that during 2012 it was without irrigation service for 23 days and a total of 23 days in 2013, due to the Hualapai 1 Well's failure.[134]

87. In its Supplemental Brief, VVPOA states that neither Truxton nor the Trust, made any efforts to prevent the Hualapai 1 Well from failing this summer, "despite VVPOA's willingness to assist with and potentially pay for the necessary repairs and replacement parts."[135] VVPOA requests that the Commission order Truxton and its owner to stock the necessary replacement parts for the Well; that the Commission give VVPOA a credit against future water bills in the amount that VVPOA will now have to incur to reseed the golf course turf areas; that the Commission adopt

[129] VVPOA Reply Brief at 9.
[130] VVPOA Reply Brief at 9-10.
[131] Exhibit A-6 at 3.
[132] *Id.*
[133] Tr. at 426, 428-429.
[134] VVPOA's Supplemental Brief at 4.
[135] *Id.*

Staff's recommended rates of $1.20 per 1,000 gallons for VVPOA given that Truxton has failed to provide adequate water service to VVPOA in each of the last four years, resulting in substantial damages to VVPOA and its property owners.[136]

88. In response to VVPOA's assertion that it was without water for ten days this summer, Truxton states that the Hualapai 1 Well was fully operational by July 3, 2014; that it was operational June 18 and June 20; at no time did VVPOA go without water; and that at all times Truxton provided at least 300,000 – 400,000 (approximately half of the 800,000 gallons of water required by the golf course).

C. **Analysis/Resolution**

89. Although the Commission issued Decision No. 72386 in 2011, and that Decision remains in full force and effect, Truxton has failed to comply with its agreement to acquire the assets it needs to provide water service in its CC&N area from the Trust. Truxton's failure to acquire the assets has been the underlying source for most of the disputes/issues raised in this case. Staff, for its analysis of the rate application, simply treated the assets as if they have been transferred.

90. Truxton's proposal to finance $1.4 million to acquire the Trust assets is unreasonable.

91. Truxton's replacement cost study failed to provide a clear and complete picture of the assets' value. The evidence shows that the replacement cost study does not take into consideration the age or condition of the assets, that it does not account for depreciation, and that the Trust did not provide any documentation related to repairs of the assets that would extend their depreciable life.

92. Truxton provided no documentation in regards to original cost of the assets, or repairs or maintenance on the assets, that would support its $1.4 million request. Testimony from Truxton's witness states that the $1.4 million amount was derived "out of sky" and that the amount was arrived at by him and with his attorney in this case.[137] Although no evidence was presented contradicting that the Trust owns the 15-mile transmission line "free and clear" and that the wells were purchased by the Trust, no documentation was provided as to the original cost of the wells, or repairs, or maintenance on the wells, or transmission line that would extend their depreciable life, and without

---

[136] *Id.* 4-5.
[137] Tr. at 289.

sales receipts, bill of sales, contracts, or other documentation, actual ownership has not been established. The evidence also shows that under accepted depreciation rates, the life of a transmission line is 50 years, the life of a storage tank is 45 years, and life of the wells is 30 years. Given no documentation to support repairs and maintenance on the line, the depreciable life for the transmission line would have been complete in 1993; the newest of the three active wells in 1994; and the life of the newest storage tank would not extend beyond 2009.

93. Truxton has asserted numerous times throughout the proceeding that Staff assumed that the assets have no value and that the Commission should not make a decision on an assumption. Truxton has the burden of proof to demonstrate the assets' value. The evidence shows that Truxton failed to respond to Staff's data request requesting clarification on how the $1.4 million for the assets was derived. Staff conducted a reconstruction cost new study, while Truxton derived its $1.4 million request from the "sky."

94. Truxton did not provide evidence that the WSA executed between the Trust and the Company for more than several decades did not include a return on the value of the equipment and facilities necessary to provide service under the WSA. If the WSA did include a return on the value of the equipment and facilities it would not be just or reasonable to further burden rate payers by requiring them to pay the owner for the assets again.

95. Truxton's argument that the transfer of assets is a "taking" is not persuasive. In the OSC docket, Truxton signed a Stipulated Agreement whereby it agreed to acquire the assets from the Trust.[138] Now Truxton asserts that the Commission is forcing the Trust to transfer the assets. Further, Truxton's argument that the Commission is now "taking" the Trust assets has no merit because even after the assets are transferred, the assets will be under the control of the same ultimate ownership and the assets will be used for the same purpose of providing water service. Additionally, the Trust has never sought intervention in this docket or in the OSC docket to oppose the transfer of the assets to Truxton.[139] In fact, Truxton's witness stated that the sole shareholder of the Trust was

---

[138] The Stipulated Agreement was signed by Mr. Rick Neal on behalf of Truxton after consulting with B. Marc Neal, the Trustee for the Trust and sole shareholder of Truxton. Tr. at 288.
[139] Tr. at 288.

consulted before the Stipulated Agreement was signed and the Trust and/or Truxton agreed that the assets should be transferred.[140]

96. Decision No. 72386 arose out of an OSC filed by Staff against Truxton in which Staff raised concerns that there was no independent management protecting Truxton's rights and that the Trust was selling water within Truxton's CC&N. In the OSC docket, Staff alleged that a conflict existed because Mr. B. Marc Neal was acting on behalf of the Trust and Truxton.[141] Since that time, Mr. Rick Neal, son of B. Marc Neal, has taken over the management of Truxton, continuing the familial relationship between Truxton and the Trust. Staff asserts in this docket that Truxton is an alter-ego of the Trust.[142] The record shows that throughout this proceeding, Mr. Rick Neal testified on behalf of both the Trust and/or Truxton.[143]

97. Truxton should not obtain WIFA loan financing, if the associated assets to which the newly acquired facilities are attached and are integral to the proper function of the water system, are not owned by the water company. During the hearing, Staff raised concerns that Truxton's WIFA loan application did not specify that the Hualapai 1 Well and the transmission line did not belong to the Company.[144] Staff also questioned whether Truxton had alerted WIFA to the fact that the $1.4 million it was requesting was to finance the sale of the owner's assets to itself.[145] If Truxton does not acquire the assets, the WIFA loan financing for the ATF and the capital improvement projects should not be approved. Staff has stated that it has never seen a situation where WIFA has approved financing for capital projects where the assets were not owned by the regulated utility. Staff also testified and the Company's witness concurred that they were unaware of WIFA providing funding for an owner to sell assets to himself.

98. Therefore, based on the age of the assets, the dates that they were placed in service, and Truxton's failure to provide any evidence to support a different conclusion, we find that the Trust

---

[140] Tr. at 330.
[141] Decision No. 72386 at 13.
[142] Staff's Reply Brief at 7.
[143] Tr. at 313, 315, 330.
[144] Exhibit S-13 and Tr. at 303-304.
[145] Tr. at 304.

assets are fully depreciated. Accordingly, we will deny Truxton's request for authorization to finance $1.4 million to acquire the Trust assets.

99. Our Decision is this matter is consistent with our ruling in Decision No. 72739 (Cerbat rate case proceeding).[146] Cerbat is also owned by the Trust and is an affiliate of Truxton. In the Cerbat case, the assets were transferred from the Trust to Cerbat. Truxton testified that Cerbat is now in the position where there is redundancy for the system, complaints are rare, and the water system is working as it should work.[147] We believe that requiring Truxton to acquire the assets from the Trust is consistent with our previous decision and that our decision in this matter will have the same positive effect on Truxton that it has had on Cerbat.

100. Further, we do not believe it is in the public interest to grant Truxton's request to allow Truxton to resume purchasing water from the Trust.[148] Staff has stated that counsel for the Company has advised Staff that the Trust will automatically terminate upon the death of B. Marc Neil's mother. Staff has expressed concerns that service to Truxton's customers may be affected if the Trust is terminated. For the above reasons, we do not believe it is in the public interest or reasonable to allow Truxton to resume purchasing water from the Trust and using Trust assets to provide its service.

101. In order for Truxton to seek the necessary WIFA financing to construct its proposed ATF, the assets ***must first*** be transferred from the Trust to the Company. Without the assets first being transferred, it would be unclear who would own the ATF after it is installed and ratepayers should not be required to pay the cost for capital improvements not owned by the Company.[149] Further, absent transfer of the assets, Truxton's ability to maintain the ATF as a useful and integral component of the water system may be unnecessarily jeopardized. Therefore, it is in the public interest to require Truxton to demonstrate, as described above, that the assets have been transferred to the water company before Truxton is authorized to seek WIFA financing for its proposed ATF and capital projects.

---

[146] In the Cerbat Decision, Cerbat was required to acquire from the Trust the assets necessary for the provision of water service.
[147] Tr. at 237.
[148] Truxton Post Hearing Brief at 6. Tr. at 263.
[149] Tr. at 307.

102. Regarding the Company's proposed cost for the ATF, we find that Staff's recommendations regarding the design and cost for the ATF are reasonable and we will adopt them upon compliance by Truxton to transfer the assets from the Trust.

103. Once Truxton has complied with transferring the assets, we find Staff's recommendation for the implementation of an arsenic surcharge mechanism is reasonable. Further, we find it appropriate to require Truxton to track and separately record as a regulatory liability the surcharge proceeds associated with its debt service reserve fund and to require Truxton to maintain an accurate balance of the regulatory liability until its obligation to ratepayers is completely satisfied.

104. Regarding Truxton's capital improvement projects, we agree that efficiencies could be gained by upgrading the Hualapai 1 Well and replacing one mile of the 15-mile transmission line. Therefore, we will require the Company to file additional documentation to provide a more detailed plan to upgrade the Hualapai 1 Well and to replace the one mile of transmission line, within 60 days of the effective date of this Decision. The additional documentation shall be filed in this docket as a compliance item, for Staff's review and approval. The additional documentation shall include, but is not limited to, the exact one-mile portion of the transmission line Truxton intends to replace; the type of replacement pipe it will use; whether the improvement will require additional permits; whether the improvements infringe on the Indian Reservation; and whether the improvement will interfere with the Tributary Flood Plan.

105. After completing its review, Staff shall file a Supplemental Staff Report and any additional recommendations regarding the proposed financing for the capital projects. Because the upgrades for the Hualapai 1 Well will mainly benefit VVPOA's golf course, as it acts as a secondary water supply during summer months, Staff's analysis for the financing should consider the appropriate cost allocations related to upgrading the Hualapai 1 Well.

106. VVPOA requests that the Commission order Truxton and its owner to stock the necessary replacement parts for the Hualapai 1 Well and that the Commission give VVPOA a credit against future water bills in the amount that VVPOA will now have to incur to reseed the golf course turf areas. VVPOA asserted its claim in its Supplemental Closing Brief and presented no evidence during the hearing on these issues. Therefore, we decline to address these issues in this Decision.

107. The testimony showed that the building that will be used to house the ATF is owned by the Trust, as well as the land upon which the building sits. The building is currently being used for storage and includes Truxton's chlorination plant.[150] Staff raised concerns that if the proposed ATF is constructed within the Trust owned building, on Trust land, the ATF could become a fixture on the land.[151] Truxton asserts that a long-term capital lease should be executed between the Trust and Truxton to lease the building that will house the proposed ATF.[152] We believe it is not in the public interest for ratepayers to subsidize costs for the ATF which may not ultimately be owned by the water company. Therefore, because the building has been used in the provision of Truxton's water services, the building should also be transferred from the Trust to Truxton.

108. We also find Staff's recommendation for implementation of an arsenic surcharge mechanism as modified herein, is reasonable and we will adopt it.

III. Rate Application

109. Truxton is currently operating under rates and charges established in Decision No. 63713 (June 6, 2001).

110. In Decision No. 72724 (January 6, 2012), the Commission implemented interim rates which included Monthly Minimum Charges and a Commodity Rate of $1.45 per 1,000 gallons for VVPOA. The Decision also required VVPOA to pay a $20,000 deposit on January 1, 2012, and stated that the deposit was to be refunded with interest by Truxton, on VVPOA's August 2012 bill, if VVPOA remained current on its bills. Further, the Decision required that all monies collected through the interim tariff were to be subject to a true up in this proceeding. The parties did not provide evidence calculating deposit refund amounts or true up amounts based on the proposed rates. In compliance with Decision No. 72724, Truxton should be required to prepare, as a compliance item in this docket, a report detailing the amount of the refund, with interest, that is to be credited to VVPOA's August 2012 bill, as well as a calculation of all monies subject to true up based on this Decision. Truxton shall file its report within 14 days of the effective date of this Decision, and VVPOA shall file its response 14 days after Truxton's filing. Staff shall be required to review the

[150] Tr. at 309.
[151] Tr. at 307.
[152] *Id.*

filings and make its recommendations set forth in a Proposed Form of Order for the Commission's consideration.

111. Truxton's current water rates and charges, as proposed in its updated rate application, and as recommended by Staff are as follows:

		Proposed Rates	
MONTHLY USAGE CHARGE:	**Present**	**Company**	**Staff**
Meter Size (All Classes):[153]			
5/8 x 3/4" Meter	$ 19.50	$ 29.50	$ 14.00
3/4" Meter	19.50	29.50	14.00
1" Meter	32.50	73.75	28.28
1-½" Meter	65.00	147.50	56.55
2" Meter	104.00	236.00	90.48
3" Meter	195.00	472.00	194.88
4" Meter	325.00	737.50	304.50
6" Meter	650.00	1,475.00	565.50
Gallons Included in Monthly Minimum	0	0	0
COMMODITY RATES (Per 1,000 gallons):			
All Meter Sizes			
First 5,000 gallons	$1.4500	N/A	N/A
5,001 to 20,000 gallons	1.9000	N/A	N/A
Over 20,000 gallons	2.5000	N/A	N/A
5/8 x 3/4" and 3/4" Meter			
First 3,000 gallons	N/A	$2.5000	$1.2000
3,001 to 10,000 gallons	N/A	4.5000	2.4000
Over 10,000 gallons	N/A	6.3500	3.8070
1" Meter			
First 5,000 gallons	$1.2000	N/A	N/A
5,001 to 10,000 gallons	1.4000	N/A	N/A
Over 10,000 gallons	1.6000		
First 25,000 gallons	N/A	$4.5000	N/A
Over 25,000 gallons	N/A	6.3500	N/A
First 16,000 gallons	N/A	N/A	$2.4000
Over 16,000 gallons	N/A	N/A	3.8070
1 ½" Meter			
First 5,000 gallons	$1.2000	N/A	N/A
5,001 to 10,000 gallons	1.4000	N/A	N/A
Over 10,000 gallons	1.6000		

[153] In its updated rate case schedules, Truxton proposed different monthly minimum charges for VVPOA; however, the Company did not offer an explanation as to why VVPOA's monthly minimum charges should differ from other customers. Likewise, Staff's schedules do not show different monthly minimum charges for VVPOA. Therefore, we will apply monthly minimums based solely on meter size and not customer type.

First 50,000 gallons	N/A	$4.5000	N/A
Over 50,000 gallons	N/A	6.3500	N/A
First 30,000 gallons	N/A	N/A	$2.4000
Over 30,000 gallons	N/A	N/A	3.8070
2" Meter			
First 5,000 gallons	$1.2000	N/A	N/A
5,001 to 10,000 gallons	1.4000	N/A	N/A
Over 10,000 gallons	1.6000		
First 80,000 gallons	N/A	$4.5000	N/A
Over 80,000 gallons	N/A	6.3500	NA
First 48,000 gallons	N/A	N/A	$2.4000
Over 48,000 gallons	N/A	N/A	3.8070
3" Meter			
First 5,000 gallons	$1.2000	N/A	N/A
5,001 to 10,000 gallons	1.4000	N/A	N/A
Over 10,000 gallons	1.6000		
First 160,000 gallons	N/A	$4.5000	N/A
Over 160,000 gallons	N/A	6.3500	N/A
First 58,000 gallons	N/A	N/A	$2.4000
Over 58,000 gallons	N/A	N/A	3.8070
4" Meter			
First 5,000 gallons	$1.2000	N/A	N/A
5,001 to 10,000 gallons	1.4000	N/A	N/A
Over 10,000 gallons	1.6000		
First 250,000 gallons	N/A	$4.5000	N/A
Over 250,000 gallons	N/A	6.3500	N/A
First 95,000 gallons	N/A	N/A	$2.4000
Over 95,000 gallons	N/A	N/A	3.8070
6" Meter			
First 5,000 gallons	$1.2000	N/A	N/A
5,001 to 10,000 gallons	1.4000	N/A	N/A
Over 10,000 gallons	1.6000		
First 500,000 gallons	N/A	$2.5800	N/A
Over 500,000 gallons	N/A	3.2000	N/A
First 278,000 gallons	N/A	N/A	$2.4000
Over 278,000 gallons	N/A	N/A	3.8070
Bulk Water			
Per 1,000 gallons	$2.5000	$6.3500	$3.8070

Valley Vista Property Owners Association			
Per 1,000 gallons	$1.4500	N/A	$1.2000
First 15,000,000 gallons	N/A	$1.7000	N/A
Over 15,000,000 gallons	N/A	1.9000	N/A

		Proposed Rates	
SERVICE CHARGES:	**Present**	**Company**	**Staff**
Establishment	$45.00	$50.00	$45.00
Establishment (After Hours)	55.00	Eliminate	Eliminate
Reconnection (Delinquent)	65.00	$70.00	$45.00
Reconnection (Delinquent/After Hours)	75.00	Eliminate	Eliminate
Meter Test (If Correct)	35.00	$40.00	$25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
Re-Establishment(Delinquent/After Hours)	**+$10.00	Eliminate	Eliminate
NSF Check	$15.00	$25.00	$25.00
Deferred Payment	1.5% per month	1.5% per month	1.5% per month
Meter Re-Read (If Correct)	$15.00	$25.00	$20.00
Late Fee	5.00	5.00	5.00
Call Out (At Customer's Request)	25.00	35.00	Eliminate
After Hours Charge	No Tariff	25.00	$30.00
Monthly Fire Sprinkler Charge	***	Eliminate	****

* Per Commission Rule A.A.C. R14-2-403(B)
** Number of months off system times monthly minimum per A.A.C. R-14-2-403(D)
*** 1% of monthly minimum for a comparable sized meter connection, but not less than $5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.
**** 2% of monthly minimum for a comparable sized meter connection, but not less than $10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409(D)(5).

. . .

. . .

. . .

. . .

. . .

. . .

. . .

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

		Company Charges			Staff Recommended Charges		
	Current	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Service Line	Meter	Total
5/8" x ¾" Meter	$450	$445	$155	$600	$445	$155	$600
3/4" Meter	500	445	255	700	445	255	700
1" Meter	550	495	315	810	495	315	810
1 1/2" Meter	775	550	525	1,075	550	525	1,075
2" Meter	1,305	830	1,045	1,875	830	1,045	1,875
2" Compound Meter	1,900	830	1,890	2,720	830	1,890	2,720
3" Meter	1,815	1,045	1,670	2,715	1,045	1,670	2,715
3" Compound	2,490	1,165	2,545	3,710	1,165	2,545	3,710
4" Meter	2,860	1,490	2,670	4,160	1,490	2,670	4,160
4" Compound Meter	3,615	1,670	3,645	5,315	1,670	3,645	5,315
6" Meter	5,275	2,210	5,025	7,235	2,210	5,025	7,235
6" Compound Meter	6,810	2,330	6,920	9,250	2,330	6,920	9,250

A. Rate Base

112. Truxton proposed an original cost rate base ("OCRB") of negative $185,698, and requested rates be set using an operating margin of 11.10 percent.

113. Truxton did not propose a fair value rate base ("FVRB") that differs from its OCRB of negative $185,698.

114. Staff made net adjustments totaling $62,572 that decreased the Company's proposed OCRB from negative $185,698 to a negative $249,270.[154] Staff recommends rate base adjustments to advances in aid of construction ("AIAC"), adjustments to contributions in aid of construction ("CIAC"), customer deposits, and cash working capital allowance.

1. Adjustment to AIAC

115. The Company's application stated that it had $865,257 in plant additions in account No. 331 (Transmission and Distribution Main).[155]

116. Staff initially disallowed the Company's reported $865,257 in plant additions because Truxton did not provide invoices to support the additions.[156] Truxton stated that it believed the additions were related to line extension agreements because the timing and amounts were similar

[154] Exhibit S-3 at Schedule CSB-3.
[155] Exhibit A-1 at Schedule E-5.
[156] Exhibit S-3 at 11.

to the Company's reported AIAC. Based on the Company's testimony, Staff identified $815,260 in AIAC that was recorded on the Company's books. The Company was able to provide line extension agreements totaling $314,160 of the $815,260, leaving $501,100 unsupported.[157]

117. Staff asserts that in Decision No. 72386 (May 27, 2011), Truxton was ordered to file its line extension agreements for approval by the Commission, but that the Company has still not done so.[158] Staff argues that the line extension agreements that the Company provided had not been approved by the Commission and therefore Truxton is in violation of A.A.C. R14-2-406.M.[159]

118. Staff states that because Truxton did not provide documentation showing that $314,160 in plant financed by AIAC was actually approved by the Commission; because the Company did not provide any documentation to support the remaining $501,100 in AIAC; and because Truxton is in violation of Decision No. 72386 (which required Truxton to file all line extension agreements), Staff recommends that all $815,260 of the proposed AIAC be treated as CIAC.

119. Truxton did not provide evidence to refute Staff's recommendation to treat all $815,260 of the proposed AIAC as CIAC; nor did the Company provide any documentation demonstrating that it has complied with Decision No. 72386 with regards to line extension agreements. Therefore, we find Staff's recommendation to treat all $815,260 of AIAC as CIAC is just and reasonable, and we will adopt Staff's recommendation.

2. Adjustment to CIAC

120. Truxton proposed $63,429 in CIAC. Staff recommends an increase of $815,260 in CIAC to reflect Staff's recommendation that all unsupported or unapproved AIAC be treated as CIAC.[160]

---

[157] *Id.*
[158] Exhibit S-3 at 12.
[159] A.A.C. R14-2-406.M states that:
All agreements under this rule shall be filed with and approved by the Utilities Division of the Commission. No agreement shall be approved unless accompanied by the Certificate of Approval to Construct as issued by the Arizona Department of Health Services. Where agreements for main extensions are not filed and approved by the Utilities Division, the refundable advance shall be immediately due and payable to the person making the advance.
[160] Exhibit S-3 at 12.

121. Because we have adopted Staff's recommendation to treat all unsupported or unapproved AIAC as CIAC, we also find that Staff's upward adjustment of $815,260 to CIAC, and Staff's recommended increase of $13,533 to reflect the amortization of CIAC, is just and reasonable and we will adopt it.[161]

3. Adjustment to Customer Deposits

122. Staff states that Truxton did not include customer deposits in its rate base calculation and customer deposits are treated as a reduction to rate base in order to recognize non-investor provided capital.[162]

123. Staff recommends decreasing rate base by $5,618 to reflect the Company's customer deposits.

124. Truxton did not provide testimony or evidence refuting Staff's recommendation regarding customer deposits.

125. We find Staff's recommendation regarding customer deposits is just and reasonable and we will adopt it.

4. Adjustment to Cash Working Capital Allowance ("CWCA")[163]

126. Truxton proposed a CWCA in the amount of $71,487.[164]

127. Staff testified that in some instances CWCA can be a negative amount when it is larger than the sum of the average investment made in materials and supplies and prepayments.[165] Staff states that it believes that the Company's proposal to only include prepayments in its CWCA represents an inequitable adjustment to rate base, and that if the Company had conducted a lead-lag[166] study it could have included any customer provided capital as part of its CWCA.[167]

---

161 Exhibit S-4, Schedules CSB-4 and CSB-7.
162 Exhibit S-3 at 13.
163 CWCA refers to the amount of investor supplied funds needed to finance operations. See, Deloitte, Regulated Utilities Manual at 12.
164 Exhibit S-3 at 14.
165 *Id.* at 14.
166 Lead-lag studies "essentially determine the net difference, in terms of days, between the point at which service is rendered and revenues are collected from customers, and the point at which costs are incurred until they are paid." See, Deloitte, Regulated Utilities Manual at 12-13.
167 Exhibit S-3 at 14.

128. Staff asserts that by failing to conduct a lead-lag study Truxton failed to reflect any customer provided capital as part of its working capital requirement; that this approach guarantees a positive CWCA; and that if the Company had conducted a lead-lag study it might have shown that the Company's total net CWCA was actually negative and would have resulted in a reduction to rate base.[168]

129. Staff also argues that in Decision No. 72429 (June 24, 2011), the Commission adopted Staff's recommendation to remove a CWCA from Southland Utilities Company's rate base because it had not performed a lead-lag study.[169]

130. In Decision No. 72429, the Commission indicated that:

> Working Capital is composed of materials and supplies' prepayments and cash working capital. Cash working capital is the cash needed by a utility to cover its day-to-day operations. It may either increase or decrease rate base. If the Company's cash expenditures, on an aggregate basis, precede the cash recovery of expenses, investors must provide cash working capital. In that situation, a positive cash working capital requirement exists. On the other hand, if revenues are typically received prior to when expenditures are made, on average, then rate payers provide the cash working capital to the utility, and the negative cash working capital allowance is reflected as a reduction to rate base.[170]

131. In this case, Staff recommends the disallowance of Truxton's proposed CWCA of $71,487.

132. Truxton did not provide testimony or evidence to refute Staff's recommendation.

133. Generally, the Commission requires Class A, B, and C utilities to perform a lead-lag study in order to claim a CWCA,[171] while Class D and E utilities are allowed to calculate a CWCA using the formula method. A.A.C. R14-2-103(A)(3)(h) states that an original cost rate base calculation should include a ***proper*** allowance for working capital [emphasis added]. Here, Truxton is a Class C utility and Class C utilities are generally required to perform a lead-lag study to claim a CWCA. Truxton calculated its proposed CWCA using the formula method, which Staff testified

---

[168] *Id.* at 14.
[169] In that case, Southland Utilities Company, like Truxton, was classified as a Class C utility.
[170] Decision No. 72429 at 5-6.
[171] In Decision No. 72001 (December 10, 2010), *In the Matter of the Application of Mt. Tipton Water Company, Inc., for an Increase in its Water Rates*, the Commission adopted a CWCA for Mt. Tipton using the formula method. Mt. Tipton like Truxton is a Class C utility, but Mt. Tipton is a not-for-profit utility. Truxton and Southland are both for-profit utilities.

always results in a positive CWCA. Truxton did not provide testimony or evidence to refute Staff's recommendation and it is unclear whether its owners or ratepayers should be compensated for cash working capital. We find that Staff's recommendation is just and reasonable and we will adopt it.

134. Staff's adjustments to OCRB are just and reasonable and we find that Truxton's OCRB is negative $249,270. Truxton did not request a Reconstruction Cost New Rate Base, and therefore, Truxton's FVRB is equivalent to its OCRB, or negative $249,270.

5. Operating Expenses and Revenues

135. Truxton proposed total operating revenues of $855,924, an increase of $300,000 or 53.96 percent over TY revenues of $555,924, resulting in an operating income of $95,000, and an 11.10 percent operating margin.

136. Staff recommends total operating revenues of $489,106, a decrease of $66,818 from TY revenues of $555,924, to provide a cash flow of $59,579, operating income of $50,000, and an operating margin of 10.22 percent.[172]

137. Truxton proposed operating expenses of $803,125 and an operating loss of $247,201 for the TY.

138. Staff made adjustments in the amount of $338,302 to the Company's proposed TY expenses and recommends TY operating expenses of $465,160 resulting in a TY operating income of $90,764.[173] Staff's adjustments to operating expenses include:

a. Decreasing Purchased Water by $147,409, to reflect the intent of Decision No. 72386, which ordered the Company to "acquire all water system assets necessary to provide service from the Trust no later than June 30, 2011."

b. Decreasing Repairs and Maintenance by $1,608, to remove costs either not supported by invoices, or expenses that were not incurred during the TY, or that were not needed for the provision of service.

c. Decreasing Outside Services by $202,891, to remove management and operations fees for the Trust. Staff's *pro forma* adjustment is consistent with the *pro forma* adjustment made by the Company in its original application to cancel the management and operations contract with the Trust.

d. Increasing Water Testing by $369 to $5,215, to reflect Staff's recommended annual water testing costs.

---

[172] Exhibit S-3 at Schedule Surrebuttal CSB-10.

[173] *Id.* at Schedule Surrebuttal CSB-11.

e. Decreasing Rents by $1,650, to reflect the proper allocation of rents expense charged to Truxton by its affiliate.

f. Decreasing Transportation by $2,700 to remove profit from rental fees paid to an affiliate.

f. Decreasing Depreciation by $24,892 to reflect Staff's calculation of depreciation expense using Staff's recommended depreciation rates and Staff's recommended plant and CIAC balances.

g. Increasing Property Tax by $2,563, to reflect Staff's calculation of the Company's property tax expense.

h. Increasing Income Tax by $39,915, to reflect the income tax obligation on Staff's adjusted TY taxable income.

i. Increasing Interest on Customer Security Deposits by $337, to reflect Staff's recommendation to include customer deposits in rate base.

139. Truxton's rebuttal testimony only addressed two of Staff's recommended adjustments to operating expenses, in the areas of Purchased Water and Outside Services.

140. Truxton's updated rate case documentation proposed a Purchased Water expense of $147,409 and an expense of $266,283 for Outside Services.[174] Truxton's witness testified that "all of the expenses reflected in the application were incurred to provide water to its [Truxton's] customers, regardless of whether they were paid by the Trust or the Company."[175] The witness also stated that Staff's removal of the Purchased Water and Outside Services expenses (for a total adjustment of $350,300) "denies the very limited funding Truxton and/or the Trust currently needs to continue to provide water."[176] Further, Truxton's witness asserted that because "Staff's recommendations are so far out of the realm of reasonableness, the Company has elected not to alter its position."[177]

141. Truxton also asserts that historically the Commission has allowed the Trust to manage the water company and receive payment for such service. Truxton contends that in Decision No. 63713 (June 6, 2001), the Commission allowed an Outside Services expense of $15 per connection, per month. Truxton asserts that in this case, based on the Company's invoices from the Trust, the Company is seeking $13.18 per connection per month.[178]

142. Staff asserts that Truxton was ordered in Decision No. 72386 to acquire from the Trust the assets necessary for the provision of water service; the Decision found that a transfer of the assets

---

[174] Exhibit A-2 at 19. Truxton did not refute Staff's other recommended adjustments to operating expenses.
[175] Exhibit A-5 at 2.
[176] *Id.* at 3.
[177] *Id.* at 2.
[178] Exhibit A-3.

was in the public interest; and that the transfer of assets would benefit ratepayers by eliminating the need for Truxton to pay for the cost of purchased water.[179] Staff also contends that if Truxton owned the Trust's wells and other plant assets, Truxton would recover its cost of service and earn a return on its rate base.[180]

143. Staff argues that even if Truxton never acquires the plant assets, Staff's recommended adjustment to the Purchased Water expense is fair to ratepayers because Truxton has paid the Trust for the market value of the water, which includes operations and maintenance and capital costs, plus a return on the value of the equipment and facilities necessary to provide service, under a WSA.[181]

144. Under the WSA, the rate charged by the Trust to Truxton states:

> Said price will be based upon the market value of the water considering the operation, maintenance and capital cost to Trust, plus a return on the value of the equipment and facilities necessary to provide service under this agreement.[182]

145. Staff further argues that affiliated transactions, like the WSA, to provide services, products and assets are subject to the NARUC Guidelines, which state:

> Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of the fully allocated cost or prevailing market prices.

146. Staff contends that the Purchased Water expense should be disallowed because the WSA provides for full recovery of the Trust's costs; the WSA allows the Trust a return on investment, or a profit from its affiliate; that profits on affiliate transactions are contrary to the NARUC Guidelines; and that the Company acknowledged that generally the Commission does not allow transactions between a regulated utility and its affiliates to include affiliate profit that is passed on to customers.[183]

147. Staff also asserts that the Company submitted invoices that purportedly support its Purchased Water expenses for 2012, but that the amounts for the invoices are inconsistent with the

---

[179] Exhibit S-3 at 7-8.
[180] Staff's Initial Closing Brief at 10. See also Exhibit S-1, Engineering Report at 3.
[181] Tr. at 336-37.
[182] Exhibit S-6 at 3.
[183] Tr. at 136.

numbers provided in the Company's schedules.[184] Staff stated that Truxton provided invoices totaling more than $200,000 for Purchased Water expenses, but that its schedules state that it had $147,000 in expenses.[185]

148. Staff's adjustment to Outside Services removes $202,891,[186] resulting in an Outside Services expense of $63,392.[187] Staff stated it recommends removal of the $202,891 amount based on the Company's representation that it has cancelled the management agreement with the Trust.[188] To analyze the Company's Outside Services expenses, Staff stated it looked at the invoices provided by the Trust and the Company's general ledger in an attempt to reconcile the expenses; however, the amounts totaled $17,775.32 less than the $266,283 sought by the Company. Therefore, Staff stated that the correct amount of expenses for Outside Services could not be reconciled due to inconsistencies between the Company's general ledger and the invoices provided by the Trust.[189] Staff points out the following inconsistencies in the Company's reported amounts for Outside Services as stated in the Company's general ledger:

Account No. 630	$209,778.00[190]
Account No. 631	$ 31,325.56
Account No. 635	$ 4,846.00
Account No. 636	$ 2,558.12
Total	$248,507.68

149. Further, Staff states that there are inconsistencies between the numbers reported in the Company's general ledger for Purchased Water and Outside Services (Management Agreement). Staff states that the Company's general ledger shows Management Agreement fees for 2012 of $146,205.74 and total Purchased Water of $210,349.67. However, the Company's Updated Rate

---

[184] Tr. at 595.
[185] Staff's Initial Closing Brief at 12.
[186] Staff states that it calculated the total amounts of payments to the Trust at $202,891; however, a clerical error was made in the calculation and the actual amount was $203,891.
[187] Exhibit S-3 at 18-20.
[188] Exhibit A-1 at 3. Further, Staff states that in Decision No. 72386, Truxton was required to acquire all water system assets from the Trust for the provision of water service. Therefore, Staff states that if Truxton was in compliance with that Decision, the expense for a management contract should not be necessary.
[189] Staff's Initial Closing Brief at 14.
[190] Staff reports that during testimony, its witness erroneously stated that this amount includes only bills for Outside Services from the Trust to Truxton, but that this amount also reflects payments to other payees. Staff states that the Company's reported amounts for either Purchased Water or Management Agreement fees cannot be reconciled with Staff's calculation. Staff's Initial Closing Brief at 14.

Case Data shows Outside Services expenses (Management fees) of $266,283 and Purchased Water expenses of $147,409.

150. Staff also argues that its efforts to accurately evaluate Truxton's operating expenses for the TY were hampered by the Company's "dearth of documentation."[191] Staff points out that the Company's witness testified that when she prepared the TY rate case schedules she did not review any underlying documents regarding the numbers used in the schedules, and that she prepared the schedules for the rate case using spreadsheets that were prepared by "Rick Neal's wife and some woman named Tammy."[192] Staff contends that the Company's witness assumed all of the expenses that were provided to her were for Truxton, but that the witness had no way of discerning if the expenses were actually incurred by the Trust or Truxton.[193] Likewise, Staff points out that during testimony, Mr. Neal conceded that the Trust provided Truxton with no documentation as to the cost of providing water service.[194] Staff states that the Company's testimony brings into question the expenses relied upon to create Truxton's schedules in this case.

151. An underlying theme throughout this proceeding has been the lack of evidence to support Truxton's claimed costs and expenses to provide service. Truxton has failed to provide sufficient evidence to show its actual expenses are as stated in its rate case documentation. Truxton has failed to provide supporting documentation to justify the expenses listed in its schedules and inconsistencies exist between its schedules and the Company's general ledger.

152. Regarding the Company's purchased water expense, we have stated herein that Truxton is not in compliance with Decision No. 72386 because the Company has not acquired the assets from the Trust. We believe it is in the public interest to have the Company own the assets necessary to provide its services. We find that Staff's disallowance of the Purchased Water expense aligns with our decision as stated herein. Therefore, we will adopt Staff's recommended Purchased Water expense of $0.

---

[191] *Id.* at 9.
[192] Tr. at 59-65.
[193] Staff's Initial Closing Brief at 9.
[194] Tr. at 278-79.

153. The inconsistencies in testimony as to whether the management agreement remains in effect or not is problematic. Truxton removed $147,000 in management fees in its original rate schedules. Truxton's witness testified in this proceeding that the management agreement had been cancelled, contrary to the testimony given by Truxton's manager. Further complicating the management agreement expenses are the inconsistencies between the Company's ledger and the invoices submitted in support of the expense. The invoices lacked sufficient detail as to what services were being provided, but simply stated "Management Agreement."[195]

154. Under these circumstances, we find Staff's adjustments to operating expenses are just and reasonable and we will adopt them.

C. <u>Revenue Requirement</u>

155. Truxton seeks a revenue requirement of $855,924, for an increase of $300,000 over the Company's adjusted TY revenues of $555,924, an operating margin of 53.96 percent, resulting in a $300,000 operating income.[196]

156. Truxton asserts that its proposed revenue requirement is reasonable given that it serves approximately 924 customers, a large golf course, a park and other recreational amenities.

157. Staff recommends a revenue requirement of $489,106,[197] a decrease of $66,818, or 12.02 percent below the Company's adjusted TY revenues of $555,924, for an operating margin of 10.22 percent, and a cash flow of $50,000.[198]

158. Staff states that its recommendation is based on Staff's recommended OCRB of a negative $249,270, and that Staff believes its recommended revenue requirement will provide the Company with sufficient revenues to cover its supported expenses.[199]

159. In light of our discussion related to Truxton's operating expenses, we find that Staff's recommendation for a revenue requirement of $489,106 is just and reasonable and we will adopt it. Therefore, Truxton has a revenue requirement of $489,106.

---

[195] Exhibit A-3, Attachment 1.
[196] Exhibit S-3, Schedule CSB-1.
[197] Exhibit S-3 at 2. Staff also increased its recommended revenue by $5,932 to include Repair and Maintenance expenses provided by the Company after Staff filed its direct testimony. Staff's increase also included the adjustments for associated taxes.
[198] Exhibit S-3, Schedule CSB-1.
[199] Exhibit S-3 at 28.

D. Rate Design

160. Truxton proposes a rate structure that includes monthly minimum charges that vary by meter size, with no gallons included in the minimum. Truxton's proposed rate design for its commodity rates include an inverted three-tier rate design. Staff concurs with the Company's commodity rate design.[200]

161. Truxton also proposes a two-tier rate design for water sales to VVPOA, with no gallons included in the minimum, a $1.70 per 1,000 gallons rate for the first 15 million gallons and $1.90 for all additional gallons.

162. VVPOA did not propose or state a position on the Company's or Staff's proposed rate design.

163. Staff proposes a flat rate design for water sales to VVPOA, with no gallons included in the minimum, at a rate of $1.20 per 1,000 gallons.

164. The Company's proposed rates would increase the typical ¾-inch meter bill with a median usage of 3,754 gallons from $24.94 to $40.39, for an increase of $15.45, or 61.94 percent.[201]

165. Staff's recommended rates would decrease the typical residential ¾-inch meter bill, with a median usage of 3,754 from $24.94 to $19.26 for a decrease of $5.68 or 22.79 percent.[202]

166. Truxton proposed increases to its current Service Line and Meter Installation charges and Staff concurs with the Company's proposed Service Line and Meter Installation charges.[203]

167. Truxton also proposed changes to its Service Charges. Truxton requests an increase in its Establishment charge from $45 to $50; elimination of its Establishment (After Hours) charge; an increase in its Reconnection (Delinquent) charge from $65 to $70; elimination of Reconnection (Delinquent/After Hours) charge; an increase in Meter Test (if Correct) charge from $35 to $40; elimination of Re-establishment (Delinquent/After Hours) charge; an increase in NSF Check charge from $15 to $25; an increase in Meter Re-Read (if Correct) charge from $15 to $25; an increase in the

---

[200] Exhibit S-3 at 28.
[201] Notice of Errata Revised Schedule CSB-23.
[202] *Id.*
[203] Exhibit S-3 at 29.

Call Out charge from $25 to $35; and the addition of an After Hours Service Charge of $25; and elimination of its fire sprinkler service charges.

168. Staff does not agree with all of the Company's proposed Service Charges. Staff recommends eliminating the Call Out Service Charge and implementing the Company's proposed After Hours Service Charge to avoid the possibility of duplicate charges. Staff also recommends an After Hours Service Charge of $30 instead of the Company's $25; Meter Test (if Correct) charge of $25; Meter Re-read (if Correct) of $20; Establishment charge of $45; Reconnection (Delinquent) of $45; and that the NSF Check charge increase to $25. Staff further recommends that the Company have fire sprinkler rates that are two percent of the monthly minimum for comparable sized meters, but not less than $10 per month.

169. Staff agrees with the Company's proposed elimination of the Establishment (After Hours; Reconnection (Delinquent/After Hours); and the Re-establishment (Delinquent/After Hour) charges.

170. Truxton did not oppose Staff's recommended Service Charges. We find that Staff's recommended Service Charges are just and reasonable, and we will adopt them. We also find that Staff's recommended monthly minimum charges, commodity charges, rate design, and its proposed Service Line and Meter Installation charges are just and reasonable and we will adopt them. Staff recommends that any increase in rates approved by the Commission not become effective until the Company files documentation from ADEQ demonstrating that it is in compliance for monitoring of chlorine residuals and nitrates. However, because we have adopted Staff's recommended reduction in rates, we will require that the rates and charges set forth herein go into effect on December 1, 2014. We will also find Staff's proposed flat rate design for VVPO is just and reasonable and we will adopt it.

1. Allocation of ATF Cost/Arsenic Surcharge

171. VVPOA argues that its irrigation water rates should not include costs associated with construction of Truxton's proposed ATF or Staff's recommended arsenic surcharge.[204] VVPOA

[204] VVPOA Closing Brief at 3.

acknowledges that its potable water rates may include charges for the ATF, but states that its irrigation rates should not.[205]

172. Staff has recommended that VVPOA bear some cost associated with the construction of the ATF because 1) not all water received by VVPOA is for irrigation purposes and 2) a large portion of the water used for irrigation will be treated for arsenic because some of the wells used to supply irrigation water are also used as a backup source for drinking water and will be treated for arsenic.

173. Staff asserts that customers should pay for costs that are required for the utility to be able to provide service to them.[206] Staff states that rates that are set so as to allocate the reasonable cost of service to cost causers is generally a goal that should be aspired to in appropriate rate design methodology.[207]

174. Staff's recommended arsenic surcharge allocates costs associated with the ATF using customer equivalents, which results in VVPOA's golf course being responsible for approximately 6.2 percent of Staff's recommended ATF cost of $259,800 or $16,107.[208] Staff's recommended cost includes $19,000 to cover the initial media to operate the ATF.[209]

2. Resolution

175. We agree with Staff that VVPOA should bear some of the cost for the ATF, but we are concerned that Staff's proposed surcharge does not allocate enough of the surcharge to the larger meters used to supply water to VVPOA's golf course.

176. Staff's recommended ATF cost only includes media for the initial construction of the ATF. The media will need to be replaced many times during the life of the ATF. Media is exhausted quicker the more water that flows through it.[210] The design for the ATF shows that there will need to be a continuous flow of water to keep the media from cracking and to maintain its effectiveness.

---

205 *Id.* at 28.
206 Staff's Initial Closing Brief at 27.
207 Staff's Initial Closing Brief at 27.
208 Per Staff's calculation, VVPOA has 1,100 equivalents/18,030 total equivalents = 6.2 %. See, also Exhibit S-4, Surrebuttal Schedule CSB-24.
209 For purposes of this discussion, we assume that the initial media will have an approximate 2-year life span.
210 See Decision No. 73270 (July 30, 2012). In Decision No. 73270, a Class C utility received a Notice of Violation issued by ADEQ when its arsenic levels exceeded the MCL. The witness testified that although the ATF design stated that the

177. VVPOA obtains irrigation water using one ¾-inch meter, two 2-inch meters, one 4-inch meter and one 6-inch meter.[211]

178. Here, Truxton's proposed ATF will have to be sized to accommodate all of Truxton's customers, including VVPOA, whose golf course is the Company's largest water user.[212] VVPOA's golf course constitutes approximately 67.6 percent of total water sales for Truxton.[213] The evidence shows that due to the design of Truxton's water system, irrigation water received by VVPOA will not be segregated from the treated arsenic water. While Staff solely relied on customer equivalents to allocate the fixed costs for the ATF, we believe that it is appropriate to allocate a greater percentage of the surcharge to the larger 4-inch and 6-inch meter sizes.

179. Using Staff's allocated 6.2 percent surcharge for the fixed ATF plant for VVPOA, plus taking into consideration the 67.6 percent volumetric percentage of water used by VVPOA [(6.2% + 67.6 %)/2], we find that it is appropriate to allocate 36.9 percent for the cost of the ATF to customers using 4-inch and 6-inch meters on Truxton's water system. The allocation will be in the form of an arsenic surcharge.

180. Because an allowance for the property tax expense of Truxton is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure, Truxton should annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

. . .

. . .

---

expected life of the media was 17 months, the Company had exhausted its media within 12 months due to the large quantities of water flowing through the media.

[211] VVPOA Closing Brief at 7. Although Staff's Surrebuttal Schedule CSB-24 shows that Truxton has no 4-inch meter customers, this information is inconsistent with VVPOA's information.

[212] Exhibit I-4, Attachment B.

[213] *Id.*

III. Revision of Terms and Conditions

181. Truxton filed an amended application requesting that the Commission approve a revision to its existing Terms and Conditions.[214] Staff noted that the Company referred to an incorrect rule in its proposed revisions. Staff recommends that the Company change the incorrect rule cited in its Cross-Connection Control Section C.3, from A.A.C. R15-2-410.B.1.a., to A.A.C. R14-2-410.B.1.a.

182. Staff also recommends that the Company, in its Terms and Conditions of Service Tariff, under Section III, insert a new subsection B to include the following language to explain how its After Hours Service Charge will be implemented. Staff recommends the following language:

> After Hours Service Charge:
> The After-Hours Service Charge fee is for the service provided after normal business hours and appropriate when such service is at the customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service. For example, a customer would be subject to an Establishment fee if work is done during normal business hours, but would pay an additional After-Hours Service Charge if the customer requested the establishment be done after normal business hours.

183. We find Staff's recommendations reasonable and we will approve the revision of the Company's Terms and Conditions of Service of water service as stated above.

IV. Other Issues

A. Interim Manager

184. In Decision No. 72386, the Commission authorized Staff to:

> Appoint an Interim Manager for Truxton, without further action by the Commission, if Truxton is not fully in compliance with all Commission and ADEQ rules and regulations by September 30, 2011, or the compliance deadlines established in the ADEQ Consent, whichever comes first.

185. Staff recommends that the Commission maintain Staff's authorization to pursue an interim manager for Truxton, in the event circumstances warrant the appointment of one.

186. Staff states that despite the Commission's orders in Decision No. 72386, the record in this case shows that Truxton has failed to comply with ADEQ, Commission rules, and the Decision

[214] The amended application was not submitted as an Exhibit during the hearing; however, official notice is taken of the amended application and it will be used to address the issues raised herein.

itself, by failing to acquire the assets for the Trust.[215] Staff points to Truxton's failure to maintain a safe water system for its customers by failing to monitor chlorine, arsenic, and nitrates in its water system. Staff also asserts that Truxton's continuing ADEQ issues and its failure to comply with Decision No. 72386 to acquire the assets from the Trust, is particularly troubling.

187. Staff states that counsel for Truxton has advised Staff that the Trust will terminate upon the death of Mr. B. Marc Neal's mother. Staff is concerned that Truxton's customers may be at risk of service interruptions if the Trust is terminated. Staff notes that the Company's stability is especially troubling in light of the Trust's recent offer to sell the Hualapai 1 Well; its failure to maintain proper records; and a continuing commingling of funds between the Trust and Truxton.

188. For the above stated reasons, Staff recommends that the Commission maintain Staff's authorization to pursue an interim manager for Truxton without further Commission approval, should it be needed.

189. Truxton argues that the Commission does not have the authority to assume managerial control over Truxton and to remove its manager from managing the Company over the manager's objections.[216] Truxton contends that if the Commission does take control of Truxton from its owners, it would constitute a "taking" under the Constitution and that Truxton must be compensated for its property.[217] Truxton argues that the Commission cannot order the Company to give up its constitutional right to protect its property against an interim manager.

190. Truxton states that VVPOA agrees with its argument.[218]

. . .

. . .

---

[215] Staff's Initial Closing Brief at 29.
[216] Truxton Reply Brief at 7.
[217] *Id.* at 7-8.
[218] Truxton contends that in another case before the Commission, counsel for VVPOA asserted that in interim management issues, "if the Commission orders such involuntary transfer, it would result in a regulatory taking of the [water company's] property, in turn exposing the Commission . . . to payment of just compensation for such taking." Here, counsel for Truxton concludes that VVPOA (as a legal entity and party to this proceeding) agrees with Truxton's position. We disagree and find that Truxton's statement is misleading. Further, a review of the docket referred to by counsel for Truxton shows that the topic was whether the Commission could transfer a CC&N from one regulated utility to another regulated utility and did not address the implementation of an interim manager as stated in Truxton's closing reply brief. See, *In the Matter of the Rate Application of Montezuma Rimrock Water Company, LLC*, Docket No. W-04254A-11-0323, et. al., Montezuma Closing Brief at 62.

1. <u>Resolution</u>

191. Under Article XV, Section 3 of the Arizona Constitution, the Commission has authority to "make and enforce reasonable rules, regulations, and orders for the convenience, comfort, and safety, and the preservation of health, of the employees and patrons of such corporations."

192. Further, A.R.S. § 40-321 authorizes that:

> When the Commission finds that the equipment, appliances, facilities or service of any public service corporation, or the methods of manufacture, distribution, transmission, storage or supply employed by it, are unjust, unreasonable, unsafe, improper, inadequate or insufficient, the Commission shall determine what is just, reasonable, safe, proper, adequate or insufficient, and shall enforce its determination by order or regulation.

193. We find that under the above authority granted to the Commission, the Commission may appoint an interim operator for a water system when it is in the public interest.

194. We also find unpersuasive Truxton's argument that the appointment of an interim manager amounts to a "taking" under the U.S. Constitution. As we have stated in previous Decisions, the implementation of an interim manager does not alter the ownership of a utility, but rather puts in place managers that possess the requisite skill to competently operate the utility.[219] The goal of the appointment of an interim manager is to return the operations of the Company to its owner once the utility has achieved the requisite skill to operate the utility. Therefore, no "taking" occurs with the appointment of an interim manager. We have also stated that appointment of an interim operator is necessary where there is a need to ensure the continued water service to the public.[220]

195. Under the circumstances of this case, we find that Staff's recommendation for continuing authorization to appoint an interim manager for Truxton, without further action by the Commission, is just and reasonable. We continue to have concerns that Truxton is not in compliance with ADEQ, Commission Rules, and Commission Decisions and that Truxton's operations may be

---

[219] See, Decision No. 73931(June 27, 2013), *In the Matter of Commission Uitlities Division Staff's Request for Authorization to Implement Interim Manager for Green Acres Water Company.*

[220] See, Decision No. 72683 (November 17, 2011), *In the Matter of Staff's Request for Commission Relief to Order Payson Water Company and Steve Prahin to Ensure Continued Water Service to Customers.*

hampered by its relationship with the Trust. Therefore, we find it appropriate to require Truxton to be in full compliance with Commission Decisions and ADEQ by December 31, 2014.

B. <u>Trust as Public Service Corporation</u>

196. The parties and Staff were asked to brief whether the Trust is acting as a public service corporation ("PSC") within Truxton's CC&N.

197. Staff states that determining whether an entity is a PSC requires a two-step process that: 1) requires a determination whether the entity meets the literal and textual definition of a PSC pursuant to Article 15, Section 2, of the Arizona Constitution; and 2) whether the entity's business and activities are such as to make it rates, charges and methods of operation a matter of public concern by considering the factors presented in the Arizona Supreme Court case *Natural Gas Serv. Co. v. Serv-Yu Co-Op.*[221]

198. Staff asserts that the Trust meets the plain language definition for a PSC under the Arizona Constitution. The Arizona Constitution defines a PSC as:

> [A]ll corporations other than municipal engaged in furnishing gas, oil, or electricity for light, fuel, or power; or in furnishing water for irrigation, fire protection, or other public purposes; or in furnishing, for profit, hot or cold air or steam for heating or cooling purposes; or engaged in collecting, transporting, treating, purifying and disposing of sewage through a system for profit; or in transmitting messages or furnishing public telegraph or telephone services, and all corporations other than municipal, operating as common carriers, shall be deemed public service corporations.[222]

199. Staff argues that "by owning and operating wells, pumps and other plant assets necessary to providing water service and by selling the water to its wholly-owned subsidiary for sale to the public and to VVPOA until recently, the Trust meets the definition of a PSC under the Arizona Constitution."[223]

. . .

. . .

. . .

---

[221] 70 Ariz. 235, 219 P.2d 324 (1950).
[222] Ariz. Const. Art. XV § 2.
[223] Staff' Initial Closing Brief at 32.

200. Staff contends that historically the Trust has furnished water for public purposes by selling water to the military, the railroads, to Truxton and VVPOA, and that Arizona law supports the determination that an entity can be a PSC even if it is not selling water directly to end users.[224]

201. Using the *Serv-Yu* factors, Staff analyzed whether the Trust is a PSC. Staff states that the factors outlined in *Serv-Yu* are guidelines for determining if an entity is a PSC, but that the factors are not a rigid test or checklist and not all factors need be met for an entity to be determined a PSC. The *Serv-Yu* factors include:

a. What a corporation actually does;
b. A dedication to public use;
c. Articles of Incorporation, authorization, and purposes;
d. Dealing with the service of a commodity in which the public has been generally held to have an interest;
e. Monopolizing or intending to monopolize the territory with a public service commodity;
f. Acceptance of substantially all requests for service;
h. Service under contracts and reserving the right to discriminate is not always controlling;
i. Actual or potential competition with other corporations whose business is clothed with the public interest.

202. Staff states that using the *Serv-Yu* factors it is possible to reach a conclusion that the Trust is a PSC. Staff notes that because the Trust is not a party to this proceeding, Staff is not recommending that the Commission determine that the Trust is a PSC at this time.

203. However, Staff recommends that Truxton provide a definitive statement as to whether the relevant assets will be transferred to Truxton, as ordered in Decision No. 72386, and that absent such clarification, Staff believes an order to show cause may be appropriate to clarify the Trust's status as a PSC.

204. VVPOA asserts that there is not enough evidence in the record to determine if the Trust is acting as a PSC within Truxton's CC&N area because the Trust was not a party to this proceeding.[225]

---

[224] *Id.* at 32, referencing *Southwest Transmission Cooperative v. Ariz. Corp. Comm'n.*, 213 Ariz. At 432, 142 P.3d at 1244.
[225] VVPOA Closing Brief at 29.

205. VVPOA contends that aside from whether the Trust is a PSC, there is evidence to conclude that the Trust and Truxton may be alter egos.[226] VVPOA states that under Arizona case law, a two pronged test is used to determine whether a party falls under an alter ego theory. To determine if a corporation has an alter ego status it must be proven that there is "unity of control and that observance of the corporate form would sanction fraud and promote injustice."[227]

206. VVPOA alleges that there is evidence in this case that shows there is unity of control between the Trust and Truxton. As evidence that there is unity of control, VVPOA points to the payment of expenses of Truxton by the Trust, commingling of funds, use of the same water facilities and assets, and that when Truxton was formed the Trust opted to retain ownership of the water facilities. VVPOA states that based on the above factors, the Commission may be inclined to treat the Trust and Truxton as the same entity.

207. VVPOA also argues that the evidence in this case supports a legal conclusion that the Trust retained ownership of the Trust assets in constructive trust for Truxton in providing water service to customers. VVPOA asserts that "a court may impose a constructive trust whenever title to property has been obtained through actual fraud, misrepresentation, concealment, undue influence, duress or through any means which render it unconscionable for the holder of legal title to continue to retain and enjoy its beneficial interest."[228]

208. VVPOA asserts that the Trust opted to retain the assets necessary for Truxton to provide water service "to avoid going before the ACC and having to deal with regulatory issues." VVPO states that the Trust has created the legal problems associated with the Trust assets by trying to avoid Commission regulation, and if the Trust continues to refuse to transfer the Trust assets to Truxton the imposition of a constructive trust may remedy the issues surrounding the Trust assets.[229]

209. VVPOA disagrees with Truxton's position that the Trust's property is not dedicated to public use. VVPOA states that Truxton's position is contrary to evidence in this case that shows that 1) ownership of the assets necessary for Truxton to provide service have been retained by the Trust;

---

[226] *Id.*
[227] *Id.* referencing *Gatecliff v. Great Re. Life Ins. Co.*, 170 Ariz. 34, 38, 821 P.2d 725,729 (1991).
[228] *Id.* at 30, referencing *Turley v. Ethington*, 213 Ariz. 640, 643, 146 P.3d 1282,1285 (App.2006).
[229] VVPOA Closing Brief at 30.

2) that the evidence shows that the only use for the Hackberry transmission line is for service to Truxton's customers;[230] and 3) the letter docketed on behalf of Truxton and the Trust stating that the Hualapai 1 Well is plant necessary for the provision of Truxton's water service and will not be sold without prior Commission approval. VVPOA asserts that the letter demonstrates that the Trust assets are dedicated to public use.[231]

210. Truxton asserts that an analysis under *Serv-Yu* shows that the Trust is not a PSC and that the Trust assets have not been dedicated to public use.

211. Truxton asserts that the Trust's main purpose is to pass on intergenerational assets without incurring excessive taxes; that its primary assets are cattle and real property; its main property is not dedicated to public use; it does not serve end users and is not a regulated provider of the water; it does not monopolize a territory or accept substantially all requests for service; that providing its service via a contract and its right to discriminate supports a finding that it is not a PSC; and that it does not compete with any other PSC.[232]

212. Truxton requests that the Commission find that the Trust is not a PSC or that the issue is beyond the scope of this proceeding.

213. Truxton's relationship with the Trust has hampered its ability to present a clear and concise case in this proceeding. Truxton's reliance on the Trust to support its expenses during the test year caused the lack of documentation needed to support its rate case. Truxton's reliance on the Trust to transfer the assets necessary for Truxton to provide its services was hampered by the lack of documentation to support the value of the Trust assets. Truxton's reliance on the Trust complicated the financing Truxton sought herein because the assets are not owned by Truxton. Truxton's reliance on the Trust creates a lack of stability for the Company and its ratepayers. Although we do not reach a conclusion at this time, the inseparable relationship between the Trust and Truxton, could support a conclusion that the Trust is acting as a PSC, or that Truxton is its alter ego.

214. Truxton has not complied with the Stipulated Agreement we approved in Decision No. 72386 that required Truxton to acquire the assets needed to provide water service. Staff is authorized

---

[230] Tr. at 291-292.
[231] VVPOA Reply Brief at 12.
[232] Truxton's Closing Brief at 8-11.

to pursue enforcement of that Decision, and to bring an action to determine whether the Trust is a public service corporation.

CONCLUSIONS OF LAW

1. Truxton is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251, 40-301, and 40-303.

2. The Commission has jurisdiction over Truxton and the subject matter of the applications.

3. Notice of the rate, financing, and revision of the Company's Terms and Conditions applications were given in accordance with Arizona law.

4. The rates and charges proposed by Staff and authorized hereinafter are just and reasonable and should be approved.

5. The financing approved conditionally herein is for lawful purposes, within Truxton's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Truxton as a public service corporation, will not impair Truxton's ability to perform its service.

6. The financing approved conditionally herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

7. Conditional approval of the proposed financing is not intended to, and should not be interpreted to, guarantee or imply any specific treatment of any capital additions for rate base or ratemaking purposes.

8. Staff's recommendations, as described and modified herein, are just and reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Truxton Canyon Water Company is hereby directed to file by December 1, 2014, with Docket Control, as a compliance item in this docket, revised rate schedules as set forth below:

. . .

MONTHLY USAGE CHARGE:

Meter Size (All Classes):	
5/8 x 3/4" Meter	$ 14.00
3/4" Meter	14.00
1" Meter	28.28
1-½" Meter	56.55
2" Meter	90.48
3" Meter	194.88
4" Meter	304.50
6" Meter	565.50

COMMODITY RATES (Per 1,000 gallons):

5/8 x 3/4" 3/4" Meter Sizes	
0-3,000 gallons	$1.2000
3,001 to 10,000 gallons	2.4000
Over 10,000 gallons	3.8070

1" Meter	
0- 16,000 gallons	$2.4000
Over 16,000 gallons	3.8070

1 ½" Meter	
0- 30,000 gallons	$2.4000
Over 30,000 gallons	3.8070

2" Meter	
0- 48,000 gallons	$2.4000
Over 48,000 gallons	3.8070

3" Meter	
0- 58,000 gallons	$2.4000
Over 58,000 gallons	3.8070

4" Meter	
0- 95,000 gallons	$2.4000
Over 95,000 gallons	3.8070

6" Meter	
0- 278,000 gallons	$2.4000
Over 278,000 gallons	3.8070

Bulk Water	
Per 1,000 gallons	$3.8070

Valley Vista Property Owners Association	
Per 1,000 gallons	$1.2000

. . .

. . .

. . .

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

	Service Line	Meter	Total
5/8" x ¾" Meter	$445	$155	$600
3/4" Meter	445	255	700
1" Meter	495	315	810
1 1/2" Meter	550	525	1,075
2" Meter	830	1,045	1,875
2" Compound Meter	830	1,890	2,720
3" Meter	1,045	1,670	2,715
3" Compound	1,165	2,545	3,710
4" Meter	1,490	2,670	4,160
4" Compound Meter	1,670	3,645	5,315
6" Meter	2,210	5,025	7,235
6" Compound Meter	2,330	6,920	9,250

SERVICE CHARGES:

Establishment	$45.00
Reconnection (Delinquent)	$45.00
Meter Test (If Correct)	$25.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 Months)	**
NSF Check	$25.00
Deferred Payment	1.5% per month
Meter Re-Read (If Correct)	$20.00
Late Fee	5.00
After Hours Charge	$30.00
Monthly Fire Sprinkler Charge	****

* Per Commission Rule A.A.C. R14-2-403(B)
** Number of months off system times monthly minimum per A.A.C. R-14-2-403(D)
*** 1% of monthly minimum for a comparable sized meter connection, but not less than $5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.
**** 2% of monthly minimum for a comparable sized meter connection, but not less than $10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that in addition to the collection of regular rates, Truxton Canyon Water Company is conditionally approved to collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that in compliance with Decision No. 72724 (January 6, 2012) Truxton Canyon Water Company shall file, as a compliance item in this Docket, within 14 days of the effective date of this Decision, a report detailing the calculation of the amount of the refund, with interest, that is to be credited to Valle Vista Property Owners Association's August 2012 bill, as well as a calculation of all monies subject to true up based on Decision No. 72724 and rates set forth herein for Valle Vista Property Owners Association, for the Commission's Utilities Division review.

IT IS FURTHER ORDERED that Valle Vista Property Owners Association shall file a response to Truxton Canyon Water Company report related to deposit refund amounts and amounts subject to true up, within 14 days of Truxton Canyon Water Company's filing.

IT IS FURTHER ORDERED that the Commission's Utilities Division Staff shall review the filings made by Truxton Canyon Water Company's and Valle Vista Property Owners Association and make any recommendations Staff deems necessary set forth in a Proposed Form of Order for the Commission's consideration.

IT IS FURTHER ORDERED that the above rates and charges set forth herein shall go into effect December 1, 2014, for all of Truxton Canyon Water Company's water utility services.

IT IS FURTHER ORDERED that the Commission's Utilities Division Staff is authorized to appoint an interim manager for Truxton Canyon's Water System, without further action by the Commission, and if Truxton Canyon Water Company is not in full compliance with Commission Decisions and the Arizona Department of Environmental Quality by December 31, 2014, Staff shall take appropriate action.

IT IS FURTHER ORDERED that Truxton Canyon Water Company's request for authorization to obtain financing in the amount of $1.4 million to fund the acquisition of the wells and pipeline currently owned by the Claude K. Neal Family Trust, is hereby denied.

IT IS FURTHER ORDERED that once Truxton Canyon Water Company has filed documentation, confirmed by Staff, that it has acquired from the Claude K. Neal Family Trust, and any other entities, all water system assets, and that Truxton Canyon Water Company has full ownership and control of all water system assets used in the provision of its water service, Truxton Canyon Water Company is authorized to obtain financing through the Water Infrastructure Financing Authority to borrow up to $259,800 as an amortizing loan for 18 to 22 years, for the purpose of financing the construction of the arsenic treatment plant as described herein by Staff.

IT IS FURTHER ORDERED that once Staff has confirmed that Truxton Canyon Water Company has full ownership and control of the water system assets, Truxton Canyon Water

Company is authorized to pledge, mortgage, lien and/or encumber its assets in the State of Arizona pursuant to A.R.S. §40-285 in connection with the authorized Water Infrastructure Financing Authority loan.

IT IS FURTHER ORDERED that Truxton Canyon Water Company is authorized to engage in any transactions and to execute any documents necessary to effectuate the authorization granted herein.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file with the Commission, within 15 days of the Water Infrastructure Financing Authority loan closing, a proposed arsenic surcharge mechanism tariff that would enable Truxton Canyon Water Company to meet its principal, interest, and tax obligations on the loan, in a form acceptable to Staff.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall follow the methodology set forth Exhibit S-4 Surrebuttal Schedule CSB-24, to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the Water Infrastructure Financing Authority loan using the actual loan amount, interest rate and customer counts.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall track and separately record as a regulatory liability the surcharge proceeds associated with debt service reserve fund. Truxton Canyon Water Company should maintain an accurate balance of the regulatory liability until its obligation to ratepayers is completely satisfied.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall set up a separate interest bearing bank account the same month the arsenic surcharge mechanism takes effect, and starting the first month that the arsenic surcharge is collected from Truxton Canyon Water Company's customers, the Company shall deposit all revenues collected from the arsenic surcharge mechanism in that separate interest bearing account, to be used only for making payments on the Water Infrastructure Financing Authority loan and the annual income taxes related to the loan for the arsenic treatment plant as shown in Exhibit S-4 Surrebuttal Schedule CSB-24.

IT IS FURTHER ORDERED that the arsenic surcharge mechanism shall allocate 36.9 percent of the cost of for the arsenic treatment facility to Truxton Canyon Water Company's customers using 4-inch and 6-inch meters.

IT IS FURTHER ORDERED that this docket shall remain open to allow implementation of the arsenic surcharge mechanism related to the Water Infrastructure Financing Authority loan for the arsenic treatment plant.

IT IS FURTHER ORDERED that the financing and the surcharge approved herein shall be rescinded if Truxton Canyon Water Company has not drawn funds from the loan within one year of the effective date of this Decision.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file, with Docket Control, as a compliance item in this docket, by December 31, 2015, a copy of the Certificate of Approval of Construction issued by Arizona Department of Environmental Quality for installation of the 250 GPM arsenic treatment plant described herein.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file its next general rate case no later than May 31, 2018, with a test year ending December 31, 2017.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file, as a compliance item in this docket, within 60 days of the effective date of this Decision, additional information (as described herein in Finding of Fact No. 104) related to its request for authorization to finance upgrades to the Hualapai 1 Well and the replacement of one mile of its transmission line.

IT IS FURTHER ORDERED that upon review of Truxton Canyon Water Company's additional documentation related to the upgrades to the Hualapai 1 Well and the replacement of one mile of its transmission line, Staff shall file, as soon as practicable, a Supplemental Staff Report regarding the Company's request to finance the above capital projects.

IT IS FURTHER ORDERED that Staff's review of the upgrades related to the Hualapai 1 Well shall include consideration of the appropriate cost allocation for the capital project.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall on a going-forward basis, use the depreciation rates by individual National Association of Regulatory Commissioners category, as delineated in Exhibit S-3, Exhibit DMH-1, Figure 6.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall immediately begin to monitor the gallons of water pumped and the gallons of water sold on a monthly basis. The Company shall coordinate when it reads the "source" meters each month with when it reads the "customer" meters so that an accurate accounting of the water pumped and the water delivered to customers can be determined. The Company shall file its first water usage report in the Company's 2014 Annual Report filed with the Commission. If the Company's reported water loss is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less.

IT IS FURTHER ORDERED that if Truxton Canyon Water Company believes it is not cost effective to reduce the water loss to less than 10 percent, it shall submit a detailed cost benefit analysis to support its position, but in no case should the Company's water loss be greater than 15 percent.

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall file a Curtailment Tariff, with Docket Control, as a compliance item in this docket, for Staff's review and certification, within 45 days of the effective date of this Decision. The Company's Curtailment Tariff shall generally conform to the sample standard non-consecutive water system tariff located on the Commission's website at www.cc.state.az.us.

IT IS FURTHER ORDERED that in addition to the authority to appoint an interim manager, the Commission's Utilities Division Staff is authorized to bring an Order to Show Cause as to why Truxton Canyon Water Company is not in compliance with Commission Decisions, and an action to determine whether the Trust is a public service corporation.

. . .

. . .

. . .

. . .

. . .

. . .

. . .

. . .

. . .

. . .

IT IS FURTHER ORDERED that Truxton Canyon Water Company shall annually file, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN — COMMISSIONER

COMMISSIONER — COMMISSIONER — COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 14th day of November 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT ____________________

DISSENT ____________________

YK:ru

SERVICE LIST FOR: TRUXTON CANYON WATER COMPANY, INC.

DOCKET NOS.: W-02168A-11-0363; W-02168A-13-0309; and W-02168A-13-0332

Steve Wene
MOYES SELLERS & HENDRICKS LTD.
1850 North Central Avenue, Suite 1100
Phoenix, AZ 85004
Attorneys for Truxton Canyon Water Co., Inc.

Patrick Black
FENNEMORE CRAIG, P.C.
2394 E. Camelback Rd., Suite 600
Phoenix, AZ 85016
Attorneys for Intevenor Valle Vista Property Owner Association

Michael Neal, Statutory Agent
Truxton Canyon Water Co., Inc.
7313 E. Concho Drive, Suite B
Kingman, AZ 86401

Janice Alward, Chief Counsel
Bridget Humphrey, Staff Attorney
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Steven M. Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007